

AECON GROUP INC.

As Canada's largest publicly traded construction and infrastructure development company, Aecon Group Inc. serves private and public sector clients across Canada and internationally. Aecon's capabilities cover the infrastructure, civil, utilities, buildings, industrial and nuclear sectors. Services range from financing, design, construction and operation to procurement, materials engineering and fabrication.





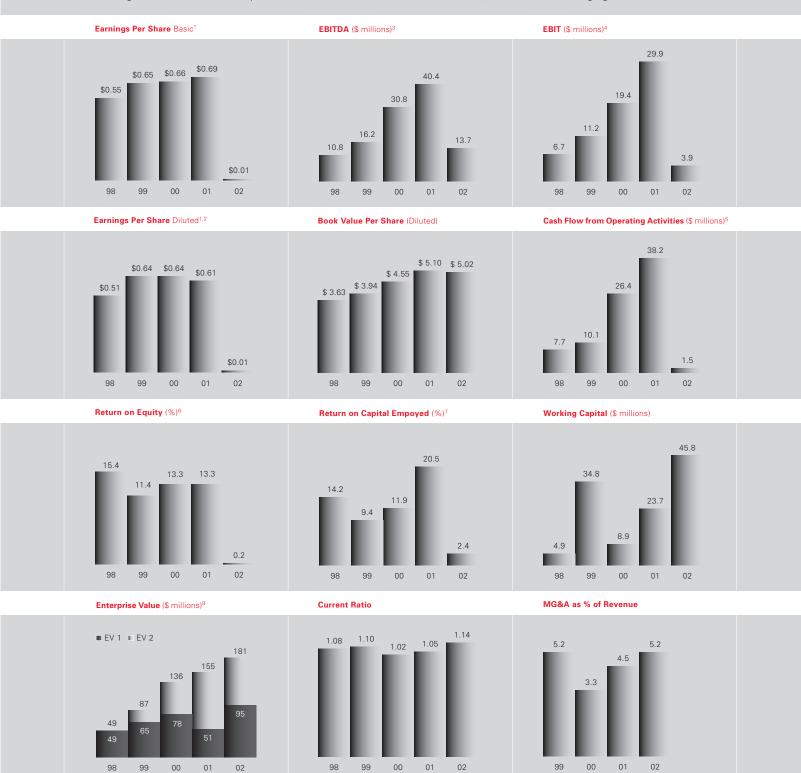




Photos from top left to bottom right: New terminal building at Pearson International Airport in Toronto, Cross Israel toll highway, Nathpa Jhakri hydro-electric dam in India and the Ford Canadian Headquarters in Ontario.

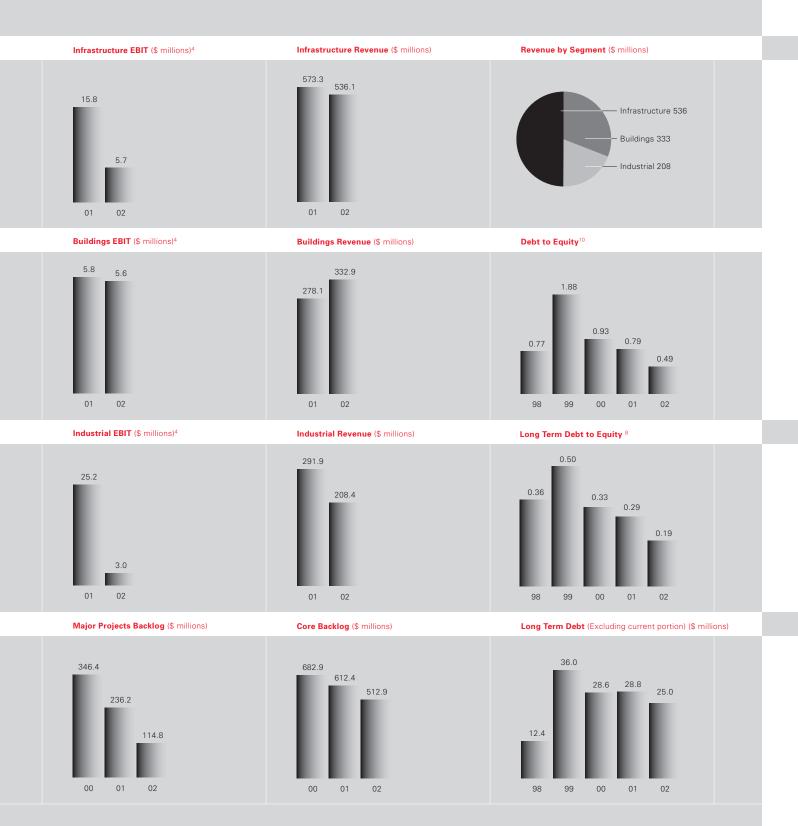
FINANCIAL SUMMARY

The following unaudited financial data has been derived from Aecon's audited Consolidated Financial Statements and should be read in conjunction with the Management Discussion and Analysis and Consolidated Financial Statements and Notes, as well as the notes highlighted below.



Notes:

- 1. In 2000 Aecon adopted the asset and liability method of accounting for income taxes. In 1999 and prior years the deferral method of tax allocation was followed. The impact of the different methodologies, particularly with respect to the accounting for tax losses, can be significant. In 1998 income taxes were substantially reduced because of previously unrecognized tax loss carryforwards.
- 2. Diluted earnings per share from 1999 onwards are calculated using the Treasury Stock Method. For 1998 the calculation was based on the Imputed Earnings Method.
- 3. EBITDA represents earnings before interest, income taxes, depreciation and amortization.
- 4. EBIT represents earnings before interest and income taxes.



- 5. Cash flow from operating activities is before changes in other balances relating to operations.
- 6. Return on average shareholders' equity is calculated as net income divided by the average of shareholders' equity at the beginning and end of the fiscal year.
- 7. Return on capital employed is calculated as EBIT divided by the average of shareholders' equity, convertible debentures, redeemable preferred shares of subsidiary and long-term debt at the beginning and end of the fiscal year.
- 8. Long-term debt to equity ratio is calculated excluding the current portion on long-term debt.
- 9. Enterprise Value: EV1 = Market Capitalization + Total Debt Cash and Marketable Securities; EV2 = Market Capitalization + Total Debt Cash and Marketable Securities not held within joint ventures.
- 10. Debt includes bank indebtedness, current portion of long-term debt, long-term debt and debt component of convertible debentures.

FINANCIAL HIGHLIGHTS

For the years ended December 31 (in millions of dollars, except per share amounts)	2002	2001	% increase (decrease)
Total Revenues	1,073.0	1,138.9	(5.8)
EBITDA*	13.7	40.4	(66.1)
Income before Income Taxes	0.9	24.3	(96.3)
Income Taxes	0.7	11.9	(94.1)
Net Income	0.2	12.4	(98.4)
Earnings Per Share			
- Basic	0.01	0.69	(98.5)
- Diluted	0.01	0.61	(98.4)
Book Value Per Share			
- Basic	5.24	5.54	(5.4)
- Diluted	5.02	5.10	(1.6)
Shares Outstanding			
- Basic	25,111,109	18,018,583	39.4
- Diluted	27,783,680	21,039,583	32.0
Dividends Paid	0.03	0.12	(75.0)

^{*} EBITDA and EBIT are not recognized measures under Canadian generally accepted accounting principles (GAAP). Readers should be cautioned that EBITDA and EBIT should not be construed as alternatives to net income (loss) determined in accordance with GAAP as indicators of Aecon's performance or as alternatives to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. Aecon's methods of calculating EBITDA and EBIT may differ from other companies and, accordingly, EBITDA and EBIT may not be comparable to measures used by other companies.

^{*} EBITDA represents earnings before interest, income taxes, depreciation and amortization.

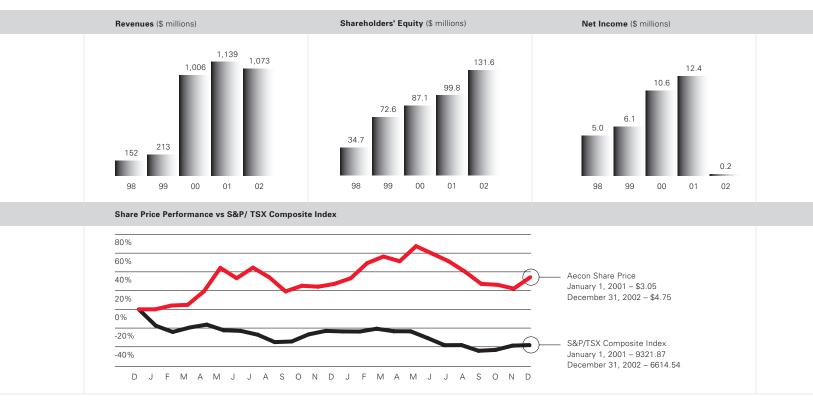


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Dear Fellow Shareholders,

I must begin this letter by reporting that 2002 was a difficult year for Aecon. Weak market forces in general, and particularly in the energy sector, prevented us from growing revenues or meeting our profit objectives. While year-over-year consolidated revenues showed little change, declining from \$1.14 billion to \$1.07 billion, Aecon recorded consolidated net income of only \$0.2 million, or 1 cent per share, as compared to \$12.4 million or 69 cents per share in 2001. As our company's largest personal shareholder as well as its CEO, I am extremely disappointed with these results as they fall significantly below our expectations and our potential.

However, as disappointed as I am in our 2002 results, I am confident about Aecon's future, about our fundamental strengths as a company and about our ability to achieve our long-term goals. Realizing these goals begins by dealing with today's challenges and in 2002 Aecon did exactly that by taking the prudent and necessary steps to build on our strengths and contain the impact of weak markets.

While industry conditions in 2002 caused declines in most of our divisions, the results of one division, Innovative Steam Technologies (IST), had a particularly negative impact on Aecon's overall performance this year.

IST serves a niche market of producers of electricity using gas-fired turbines. Its intellectual property in Once-Through Steam Generator Heat Recovery makes IST the leader in this relatively new and highly efficient energy-transfer technology. Unfortunately, in 2002 the severe economic decline in the power sector and the negative impact of the Enron scandal caused potential clients in this very focussed market to abruptly retrench. As a result, IST, like the power industry as a whole, recorded substantial losses – \$7.1 million in EBIT loss compared with a \$16.8 million EBIT gain in 2001, an erosion of \$23.9 million.

Aecon acted decisively and aggressively by reducing IST's overhead costs. Beginning in the second quarter, we scaled back staff by 75% and lowered the break-even sales point by over 50% to permit a refocused marketing effort without serious impairment of cash flow. Although significant recovery in the North American power sector is not anticipated for 2003, a near-term market for IST does exist in Europe, where a faster recovery is expected and where the generally smaller power plants are more favourable to our technology.

Also bearing mention here is the significant increase in Aecon's bid costs, particularly in the Infrastructure segment. We expensed over \$4.2 million in bid costs in 2002, up from \$0.9 million in 2001. Much of this increase is attributable to the costs involved in our successful Quito airport bid (see below), all of which will be recovered pending financial close, beginning at the commencement of construction expected in late 2003.

Fundamental strengths

Whether tackling challenges or capitalizing on opportunities, the key to Aecon's success is sound fundamentals. At Aecon we have seasoned leadership focused on our core business, we have operating divisions with track records that give us competitive strength, we have a reputation for forging and protecting vibrant strategic relationships and we have a strengthened balance sheet that positions us well for continued and profitable growth.

In 2002, we successfully pursued and achieved an infusion of equity capital and established a significant new credit facility that improves our access to capital. To better exploit new opportunities in our Canadian home market, we formed Groupe Aecon Ltée to manage our Quebec operations and we took steps to establish a presence in the Maritimes. We realigned two divisions: Aecon Civil and Utilities to operate more efficiently in the core Ontario market; and Aecon Constructors to tap the market for larger projects locally and internationally. To identify and capitalize on opportunities arising from our diversity and vertical integration, we have established a Synergy Committee and expanded our Corporate Procurement Group. We raised the hurdle for rate of return on all investments and we strengthened our Proposal Review Committee. Before committing Aecon and its capital, this committee, project to ensure that all project risks are appropriately identified, assigned and mitigated.

I am also encouraged by our success in our core construction business during the fourth quarter. Backlog grew in both highway construction and our commercial renovation and retrofit business. Building projects on university campuses stepped up to replace declines in the commercial office market. And Minto Developments Inc. emerged as an important client with a commitment to Aecon.

In 2002, Aecon reached significant milestones on our large international projects. Tolling has begun on the opened section of the Cross Israel Highway which has reached 75% completion and the Nathpa Jhakri hydro-electric project in India is now 2001 and its profit contribution has been higher than anticipated.

Also in 2002, a joint venture led by Aecon won contracts for the development of a US\$550 million international airport for Quito, Ecuador. Pending financial close, Aecon will add this significant success to its large-project backlog list, replacing other major projects as they mature.

This important new contract highlights the expertise Aecon has developed in public private partnerships (P3s). This expertise puts Aecon at the forefront of a growing trend in the Canadian construction and infrastructure development industry. The pursuit of new Canadian P3 projects will be a major thrust for Aecon in 2003, including potential projects in the transportation and healthcare sectors.

Especially pleasing for me in a year of significant challenges is to be able to say how very proud I am of all the people at Aecon for their continued dedication to the pursuit of safety on the job. The Construction Safety Association of Ontario has once again recognized us with a record-breaking rating. I want to personally thank everyone at Aecon for their continued recognition that safety is excellence.

As a framework of principles guiding our efforts at Aecon, our executive committee and management team maintain these objectives:

- To be a dominant player in each of our core businesses and core markets
- To provide superior returns for our shareholders
- To reinforce our existing position as a supplier and partner of choice
- To be the employer of choice, continuing to attract and retain the brightest and the best talent to Aecon.

In light of the challenges imposed by the results of 2002 and on the basis of the fundamental strengths that they may obscure, I want to confirm to you our continuing commitment to Aecon's guiding principles. I am confident in the resolve with which we will continue to pursue these objectives. If we can continue to realize the benefits flowing from seasoned leadership, strategic relationships, a strong competitive position, a healthy balance sheet and the best safety record in the business, then we will remain on track to achieve our goals. It is primarily for this reason that, notwithstanding Aecon's unsatisfactory performance in 2002, the Board of Directors declared a dividend of three cents per share for 2003.

All of us at Aecon thank you, as a valued partner of Aecon Group Inc., for your continued support.

John M. Beck

JohnBel

Chairman and Chief Executive Officer

A UNIQUE COMPETITIVE POSITION

Aecon is a strong player in each of its core markets. Our established reputation keeps us top-of-mind, while our broad capabilities and our well-integrated services keep pace with an evolving industry.

For almost 100 years, Aecon has helped to build Canada through landmark infrastructure projects from the St. Lawrence Seaway and the Rogers Pass in the Rockies to some of Canada's most modern public transit systems. That experience has helped to make us an international force too – connecting nations with multi-lane toll roads like the Cross Israel Highway and harnessing nature with power plants like India's Nathpa Jhakri hydro-electric complex.

Other Aecon landmarks such as Vancouver's Waterfront Place, Toronto's Eaton Centre, the CN Tower and Montreal's Place Ville-Marie proclaim excellence in Canadian construction. And we continue to pursue distinction in multi-storey structures – across university campuses, in high-rise residential buildings and in corporate facilities like Ford Canada's Oakville head office, winner of the Toronto Construction Association's Best of the Best award in 2002.

Whether through solid tradition or innovative technology, we also team up with leaders in Canada's heavy industries, designing and manufacturing steam generators, fabricating specialty pipe and providing inside plant construction and maintenance services for such customers as Shell, Syncrude, Imperial Oil, Dofasco, Stelco, Honda, Chrysler and Toyota.

Aecon provides a full range of services – from project development, financing, design and construction to procurement, operation, materials engineering and fabrication. This high level of integration makes Aecon a valued partner in multifaceted projects. Projects like the redevelopment of Pearson International Airport, where Aecon is not only a partner in managing construction of the new terminal building but is also building highway access routes and delivering such diverse components as cargo handling facilities and runway lighting.

These broad capabilities, and the expertise to integrate them, set Aecon apart in the Canadian construction and infrastructure development industry.

EXPERIENCED LEADERS MANAGING STRONG BUSINESSES

Aecon builds strong businesses by empowering experienced leaders, supporting their business plans with effective corporate resources and driving results through measurable accountability.

We are adopting a corporate scorecard to continually assess corporate performance across key measures. We also review selected projects after completion using a lessons learned analysis to identify ways that we can improve processes on other jobs as they progress. And every job is required to implement an exception reporting



Aecon is unique in that it combines a century long tradition of excellence with the agility and flexibility necessary to succeed in today's ever-changing market.

Jon Taylor
Executive Vice President
Aecon Group Inc.
President, Aecon Buildings

process to continuously monitor project performance and alert management to developments that may undermine profit goals.

Aecon's team of experienced industry leaders was ready to deal with the market adversity that characterized 2002. Our management team acted aggressively to cut overheads at Innovative Steam Technology by 75% when demand for its products sharply declined last year. Company-wide, a more extensive cost reduction program is being implemented to reduce SG&A across the board by 10%. At the same time, we're raising the 'hurdle rate' for expected returns on all projects.

Our corporate structure has been changed to better respond to new market opportunities. To pursue growing opportunities in the Quebec market, we regrouped operations under a new company, Groupe Aecon Ltée, that was successful in winning \$86 million in contracts for the construction of a hydro-electric facility and \$22 million for highway construction in the province. And we realigned divisions to form Aecon Civil and Utilities and Aecon Constructors to take advantage of synergies and to better focus on our target markets.

BUILDING RELATIONSHIPS THAT WORK

Success in the construction and infrastructure industry depends on building strong alliances – not only with our clients but also amongst our suppliers, employees, shareholders and partners.

Around the world, more and more government bodies are turning to public-private partnerships to build their infrastructure projects. The execution of these large projects requires teamwork. Aecon has demonstrated its skill in building the broad coalitions that are needed to deliver complete solutions to a spectrum of complex logistical and financial challenges.

In ventures such as India's Nathpa Jhakri hydro-electric power project, the Cross Israel Highway and the redevelopment of Toronto's Pearson International Airport, Aecon has shown strengths as both a partner and as a leader in building and managing strategic alliances. And in 2003, pending the project's financial close, these strengths will also be engaged in the development, construction and operation of a US\$550 million international airport in Quito, Ecuador.

Aecon's largest shareholder, Hochtief AG, is the world's fourth largest construction company. It also owns 100% of The Turner Construction Company, the leading builder in the United States. While we have only begun to explore the opportunities in these relationships, they have already resulted in profitable new contracts for Aecon.



Experience is something that can't be bought or borrowed – only earned. Aecon's management team has earned its industry leading reputation through years of producing results for its clients and shareholders.

Bill PearsonExecutive Vice President
Aecon Group Inc.
Chairman, Aecon Infrastructure



On countless occasions,
Aecon has demonstrated to
us that they are looking
after our best interests.
They have taken the time
and effort to understand our
needs and to help us get the
job done. We appreciate
their efforts and look
forward to continuing our
great relationship with
Aecon.

Alan GreenbergPresident and COO
MintoUrban Communities Inc.

Trusted working relationships have also enabled Aecon and Union Gas employees to work side by side to plan and execute Union's considerable construction and maintenance requirements. This open book arrangement has led to reduced costs for Union Gas and improved profitability for Aecon.

Aecon has also recently entered into a strategic relationship with Minto Developments, adding three new projects totalling \$265 million in construction value to the two projects already under construction for Minto. This relationship and the coordinated planning and execution it allows will bring considerable benefits to both companies.

In these and other partnerships, Aecon has demonstrated an industry leading ability to build relationships that work.

STABLE FOUNDATIONS FOR GROWTH

Aecon's core strengths: its unique market position, its seasoned leadership and its global alliances all depend on a solid financial base for success. As our markets expand in size and scale, so do the demands placed on our capital resources. The bidding process for large-scale projects like the new airport in Quito takes many months and significant capital investment before they are won. Building a toll road not only requires people and machines but also the financial strength to support those assets. Erecting an office tower is not only about cranes, steel and concrete but also the financial strength to obtain bonding in order to qualify for and successfully execute the project.

As Aecon's growth opportunities continue to expand, its need for a solid financial base and balance sheet expands. In 2002, against the backdrop of a weak market, Aecon's management initiated a focused strategy to further strengthen its financial foundation. By increasing working capital through a successful equity offering, securing advantageous new credit facilities and significantly reducing debt, we have provided each of our divisions with the financial strength to do what they do best: building things that matter.



While 2002 was a challenging year for Aecon, we began the year with a targeted action plan of improvements that has helped us emerge stronger and with a healthier balance sheet.

Scott BalfourExecutive Vice President and Chief Financial Officer
Aecon Group Inc.

THE BEST SAFETY RECORD IN THE BUSINESS

Construction is about people building for people. Aecon's objective to be our industry's employer of choice reflects our continuing commitment to recognize people as our strongest asset. Our men and women want to be on the job, confident and secure. Aecon firmly believes in providing our workers with the chance to succeed in their goals and our safety record underscores that.

In 2002, Aecon received an overall 99.3% rating in the annual Health and Safety Audit conducted by the Construction Safety Association of Ontario, their highest rating ever. The previous record of 99.2% was also held by Aecon just the year before. We also earned the Toyota Safety Award and are proud that Toyota Canada now uses our detailed hourly risk analysis as a model for preplanning all of their future projects. There is no coincidence in these awards: safety is a goal that we actively pursue on each and every project.

The achievement of our financial goals will always be rooted in the people who work for Aecon. Our respect for people, their values and the environment in which they work is reflected in our constant encouragement of best practices in safety. Aecon's commitment to safety not only means a safer and more secure workforce, it also means increased productivity and lower costs due to reduced lost time accidents. At Aecon, safety means excellence.



Safety is part of the hundreds of decisions project superintendents and foremen make every day on the job. With Aecon's safety training, everyone on the site plays a part in the process.

Giuliano CovassinSenior Superintendent
Aecon Construction and
Materials Limited

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

The following discussion and analysis of the consolidated results of operations and financial condition of Aecon Group Inc. ("Aecon") should be read in conjunction with the Company's 2002 Consolidated Financial Statements and Notes.

Results of Operations

Introduction

Aecon operates in three principal segments within the construction industry – Infrastructure, Buildings and Industrial.

Infrastructure includes all aspects of the construction of infrastructure including highways, expressways and toll routes, dams and tunnels, bridges, airports, marine facilities and transit systems as well as utility distribution systems including natural gas, telecommunications and electrical networks, water and sewer mains, traffic signals and highway lighting. Activities within this segment also include the development, design, construction, operation and financing of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer and public-private partnership contract structures. Activities are primarily based in Ontario and Quebec, although operations extend across Canada on a limited basis, and selectively within the United States and internationally.

Buildings is active in the construction of commercial and institutional buildings principally in Canada and the northwestern United States. This group also pursues selected international projects.

Industrial includes all of Aecon's industrial manufacturing and industrial construction activities. These operations include the fabrication of small and large bore pipe and module assembly for the petrochemical industry and the design and manufacture of once-through heat recovery steam generators for industrial and power plant applications. Also included are Aecon's industrial construction, installation and maintenance activities where Aecon has special expertise in the power, automotive and steel industries. Activities are primarily conducted in Ontario and Alberta, although selective projects are also pursued in the United States and internationally. Aecon's joint venture interest in the nuclear power market, which was previously included in Corporate and Other, is now included in this segment, and comparative figures have been reclassified accordingly. As a result of increased activity within this segment in servicing the nuclear market, management believes that this segment classification is appropriate.

Consolidated

Revenues in 2002 amounted to \$1.07 billion – a decrease of \$65.9 million or 5.8% from 2001. An \$83.5 million drop in revenues from the Industrial segment combined with a \$37.3 million decline in revenues from Infrastructure, more than offset a \$54.8 million improvement in revenues from Buildings.

Costs and expenses amounted to \$1.0 billion, which are \$28.5 million or 2.8% lower than the \$1.03 billion reported for 2001. However, as a percentage of revenues, costs and expenses increased from 90.8% in 2001 to 93.7% in 2002. Accordingly, operating margins (revenues less costs and expenses) as a percentage of revenues decreased from 9.2% in 2001 to 6.3% in 2002. The majority of the decline in the margin percentage is due to the impact of a \$22.2 million decline in margin in the Industrial segment, where sales to the power sector of high margin once-through steam generators fell sharply, and to construction contract losses and profit erosion evidenced on some jobs. While it is reasonable to expect that some of Aecon's contracts will not produce satisfactory returns, contract performance in 2002 was below levels acceptable to management. Aecon previously adopted and continues to apply a risk review screening process for new project pursuits, and is now taking aggressive measures to further refine and improve this process in order to reduce the risk of future contract losses.

Marketing, general and administrative expenses ("M,G&A") amounted to \$56.1 million in 2002, compared to \$51.5 million in 2001, and, as a percentage of revenues increased from 4.5% in 2001 to 5.2% in 2002. The principal reason for the increase in M,G&A was the much higher spending on bid costs compared to last year. Bid costs incurred in 2002 amounted to \$5.6 million, of which \$4.2 million

was expensed and \$1.4 million was capitalized. This compares to bid costs incurred and expensed in 2001 of \$0.9 million. Bid costs are deferred only when the award of a contract is considered to be highly probable. Also adding to the overall increase were higher costs related to the strategic growth of Aecon's new Quebec division, higher provisions for doubtful accounts and lower exchange gains. Partially offsetting the various increases was a \$4.2 million reduction in corporate overhead and administrative costs.

Depreciation and amortization declined by \$0.7 million, principally due to the fact that, in accordance with new recommendations of The Canadian Institute of Chartered Accountants, effective January 1, 2002, goodwill is no longer systematically amortized to income, but is only expensed when there has been an impairment in its value. In 2001 goodwill amortization amounted to \$0.9 million. Aecon recorded a goodwill impairment charge of \$0.2 million in 2002 in relation to its interest in an investment (see note 16 to the consolidated financial statements).

The results for 2001 were negatively impacted by a provision for loss on impairment of Aecon's share of a grain terminal and handling facility in Gdansk, Poland amounting to \$12.9 million pre-tax (\$11.3 million after taxes). The facility is partially completed, but construction was halted in 2000 while attempts were made to replace the terminal operator and to obtain project financing on reasonable terms. Throughout 2001, Aecon attempted to obtain project financing in order to complete the facility but was not successful. Aecon , therefore, determined that its share of the partially completed grain terminal was impaired and recorded a provision of \$12.9 million to write down its investment in the project to its net recoverable amount. No further progress was made in 2002 to advance the completion of the grain terminal and the impairment charge taken in 2001 remains appropriate. Aecon does not intend to invest further in the grain terminal project. The consolidated balance sheet as at December 31, 2002 includes the following amounts (exclusive of income tax recoveries) with respect to Aecon's investment in the Gdansk grain terminal: net working capital liabilities of \$5.9 million, redeemable preferred shares of a subsidiary of \$6.3 million, and property, plant and equipment and other assets of \$12.2 million.

Net interest expense decreased from \$5.6 million in 2001 to \$2.9 million in 2002. A breakdown of the components of net interest expense is included in note 14 to the consolidated financial statements. Interest on short-term debt was down \$4.2 million from last year as a result of significantly lower average debt balances and interest rates throughout 2002. The decrease in average debt balances was due principally to the application of some of the proceeds from Aecon's equity issue to reduce both short and long-term bank financing. Interest on long-term debt and subordinated debentures was down from last year by \$0.9 million, reflecting a combination of lower long-term debt balances and lower amounts outstanding on Aecon's subordinated debentures. In April 2002, Hochtief, Aecon's principal shareholder, exercised its option to convert approximately \$2.2 million of convertible debentures into common shares (see note 10 to the consolidated financial statements). Interest income is earned primarily: on surplus operating cash balances, funds on deposit and marketable sercurities in connection with the Cross Israel Highway project; on holdback security deposits related to the Nathpa Jhakri hydro-electric project in India; and on an interest bearing loan to a related party (see note 18 to the consolidated financial statements). The decline in interest income compared to 2001 is due to lower rates and to the inclusion in last year's interest income of a \$0.8 million adjustment to interest earned on the related party loan.

Income subject to tax in 2002 was taxed at an effective tax rate of 75.1% (2001 - 49.1%) compared to the combined Canadian federal and provincial (Ontario) statutory income tax rate ("statutory rate") of 38.6% (2001 – 42.1%). The increase in the effective income tax rate is due to income earned in provincial and foreign tax jurisdictions that is subject to tax at rates that are greater than the statutory rate, to the tax benefit of manufacturing and processing losses being recorded at a rate lower than the statutory rate, and to large corporations tax, which is not based on reported income. These were partially offset by a reduction in the effective rate resulting from the revaluation of certain non-capital income tax losses and the effect of revaluing future tax assets and liabilities to take into account the reduction in substantively enacted future tax rates.

The increase in the effective tax rate as a result of provincial and foreign rate differentials is primarily due to 2002 reported earnings from the construction project in India, which are subject to tax in India at a rate of 42.0% compared to the statutory rate.

The higher than expected effective tax rate in 2002 generally reflects the fact that legal entities that reported earnings in 2002 were subject to tax at rates higher than the statutory rate whereas the tax recovery reported in entities that incurred losses in 2002 were at rates that were less than the statutory rate.

Reporting segments Infrastructure

Financial Highlights

\$ millions	2002	2001	% Change
Revenues	\$ 536.1	\$ 573.3	(6.5)%
Segment Operating Profit	5.7	15.8	(64.3)%
Return on Revenue	1.1%	2.8%	(62.0)%

Revenues of the Infrastructure segment were lower than 2001 due principally to a \$26.3 million decline in revenues from utilities service work in Ontario, an \$18.9 million drop in revenues from road construction and maintenance activities, also in Ontario, and a \$16.1 million decline resulting from a large contract that was completed early in 2001. Highway lighting installations represented the largest single decrease in the utility sector, dropping by \$14.3 million, with most of the balance of the decrease attributable to a fall off in telecommunications and water and sewer work. With the exception of the decline in telecommunications work, which was largely attributable to the downturn in this sector, most of the balance of the decline in utilities service work and road construction was a result of less work being tendered by Ontario's Ministry of Transportation due to a strike by Ontario civil servants in early 2002. Partially offsetting the declines were higher revenues from the Cross Israel Highway and Nathpa Jhakri hydro-electric projects, and a net increase in revenues from Infrastructure's Quebec operations. The Cross Israel Highway project contributed total revenues of \$81.9 million during 2002, representing an increase of \$6.8 million over 2001, while the Nathpa Jhakri hydro-electric project in India contributed revenues of \$60.4 million during the year, \$25.8 million ahead of 2001. Revenues from the segment's Quebec operations increased by \$5.0 million, which included a contribution of \$16.3 million from the \$61 million Toulnustouc Dam project that commenced in August 2002.

Although the decline in operating profit from Infrastructure is, in part, reflective of the net decrease in volumes and revenues highlighted above, other factors also contributed to the net decline. Operating profit from the Cross Israel Highway project, while still positive, was \$9.2 million lower than last year and included a \$5.6 million adjustment in the current year resulting from a lowering of the total estimated profit from this project. The impact of exchange, slower construction progress than last year, and the effect of adjustments of contract profit in 2001 contributed to the balance of the decline.

Significant contract losses and margin erosion were experienced on five projects in 2003, including three projects in Quebec, a bridge project in western Canada and a large utilities mainline project in Ontario, all of which contributed to a \$6.6 million reduction in segment operating profit. Also contributing to the decline in operating profit were higher bid costs than last year, mostly related to Aecon's involvement in the proposed US\$550 million development of a new international airport in Quito, Ecuador. Bid costs incurred by this segment in 2002 amounted to \$4.0 million, of which \$2.7 million was expensed and \$1.3 million was deferred. This compares to bid costs incurred and expensed in 2001 of \$0.6 million. Partially negating the year-over-year decreases in operating profit was a \$7.3 million higher profit contribution from the Nathpa Jhakri hydro-electric project in India and a \$12.9 million improvement because of a write-down for this amount that was recorded in 2001 related to Aecon's investment in a grain terminal and handling facility in Gdansk, Poland. Aecon only began recording accrued financing fees owing from the Nathpa Jhakri joint venture in the fourth quarter of

2001 and, as a result of construction reaching 73% complete and continuing to progress well and with certain critical construction milestones achieved, Aecon began recording its share of joint venture profit starting in the first quarter of 2002. As a result, contribution from the Nathpa Jhakri hydro-electric power project was \$7.3 million greater than last year. Current estimated project profitability for this project excludes the potential positive impact of significant claims that the joint venture has made to its client for additional compensation and similarly excludes the potential negative impact of significant possible claims that the client might make against the joint venture for delays in project completion. Management does not currently expect there to be any net negative impact from the settlement of these various claims or possible claims, although the ultimate outcome is dependent upon future events and conditions. At year-end, the Nathpa Jhakri hydro-electric power project was 87.0% complete and the Cross Israel Highway project was 68.6% complete.

BuildingsFinancial Highlights

\$ millions	2002	2001	% Change
Revenues	\$ 332.9	\$ 278.1	19.7%
Segment Operating Profit	5.6	5.8	(3.4)%
Return on Revenue	1.7%	2.1%	(19.5)%

Revenues in the Buildings segment improved by \$54.8 million or 19.7% over last year. The pace of growth during the first half of the year was much stronger than the latter half as construction activity in the now dormant suburban office segment was very strong earlier in the year. However, the reduction in activity in suburban office towers is being replaced by increased activity in high-rise residential buildings, with two projects underway in eastern Canada and five in western Canada, and with more work in education facilities where seven projects are underway. Also, the segment's newly formed Interiors and Renovations group, which is targeted as a significant growth area for the Buildings group and which achieves better margins than are earned in construction of new structures, continued to perform well, ending the year with 6.3% of total Buildings group was weak however, with revenues down 20.2% from last year, largely as a result of weak economic conditions in that market and the unfavourable impact of currency exchange rate fluctuations.

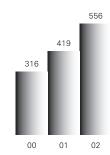
A certain amount of the work undertaken by the Buildings segment is construction management or fee based. The revenue from these contracts is recorded only to the extent of the fee income earned, and thus the full value of the construction activity that is managed is not recorded as revenue. If the value of construction that the group manages had been included in revenue, its total construction volume would have been \$555.6 million for the year compared to \$419.0 million in 2001. The Buildings segment's largest construction management contract is the Pearson Airport joint venture, which continues on schedule towards the initial opening date of October 2003 and final completion in 2006.

Operating profit, in absolute dollar terms and as a percentage of revenues, was down marginally from last year, reflecting, for the most part, competitive pressures in the group's building operations in eastern Canada.

IndustrialFinancial Highlights

\$ millions	2002	2001	% Change
Revenues	\$ 208.4	\$ 291.9	(28.6)%
Segment Operating Profit	3.0	25.2	(88.1)%
Return on Revenue	1.4%	8.7%	(83.4)%

Value of Work Under Management (\$ millions)



Demand for Industrial construction services was weak in 2002. Revenues from automotive sector work was down \$23.6 million from 2001, fabrication volumes, particularly in western Canada, were down \$35.2 million and sales of once-through steam generators at Aecon's Innovative Steam Technologies ("IST") division were down \$48.4 million. Other operations from this segment produced an increase in revenues of \$23.7 million over last year as a result of increased participation in construction service work for Ontario Power Generation and a rise in activity in the steel sector.

Operating profit fell by \$22.2 million from 2001. The decline is due primarily to a \$23.9 million drop in operating profit that resulted from the significant decrease in sales of high-margin once-through steam generators to the power sector. No new contracts were obtained by IST in 2002 and, although the division has now signed two contracts totaling \$10.5 million in 2003, it does not expect significant improvement in the power sector in 2003. Accordingly, significant steps, including a 75% reduction in staff levels, have been taken to bring IST's overhead and expenses to a level commensurate with its current sales expectations. Operating profit from all other activities in the segment was ahead of last year by \$1.7 million, due largely to a higher contribution from nuclear activities, where completion bonuses were earned in connection with a large multi-year equipment procurement contract in China, which was substantially completed in 2002. During the third quarter of 2002, Aecon completed the sale of its interest in a joint venture involved in pipe fabrication in Atlantic Canada, which resulted in a pre-tax gain on disposition of \$1.2 million.

Corporate and Other

The amount of the elimination of inter-segment revenues is consistent with last year. The \$6.6 million decline in operating loss is due principally to a year-over-year drop of \$4.3 million in corporate overhead expenses, resulting largely from lower severance, business development costs and rebranding costs, all of which were unusually high in 2001. Corporate and Other also benefited in 2002 from approximately \$0.2 million in miscellaneous gains compared to miscellaneous losses of approximately \$1.8 million recorded in 2001.

Quarterly Financial Data

Set out below are revenues, net income and earnings or loss per share for each quarter in 2002 and 2001 (in millions of dollars, except per share amounts).

2002									2	001						
	Quarter 1 Quarter 2 Quarter 3 Quarter 4				С	Quarter 1	С	Quarter 2	C	Quarter 3	С	luarter 4				
Revenues	\$	228.0	\$	236.3	\$	6	299.9	\$ 308.7	\$	188.3	\$	258.9	\$	332.4	\$	359.3
Net income (loss)		(1.0)		(3.9)			2.7	2.4		(2.1)		0.8		6.7		7.0
Earnings (loss) per	shar	e:														
Basic		(0.06)		(0.17)			0.11	0.10		(0.12)		0.04		0.37		0.39
Diluted		(0.06)		(0.17)			0.10	0.09		(0.12)		0.04		0.32		0.34

Due to the impact of share issuances and redemptions throughout the periods, the sum of the quarterly earnings (loss) per share will not equal the total for the year, although generally the difference is relatively minor. However, in the second quarter of 2002 a total of 6,963,693 shares and share equivalents (special warrants) were issued and, as a result, the average number of shares for all of 2002 was substantially higher than the number for the first three months of the year. The total of the quarterly earnings (loss) per share, compared with the amounts for the full year are as follows:

		20	02	2001					
	Quar	terly Total	Annu	al Amount	Qua	rterly Total	Anr	nual Amount	
Earnings (loss) per share:									
Basic	\$	(0.02)	\$	0.01	\$	0.68	\$	0.69	
Diluted	\$	(0.04)	\$	0.01	\$	0.58	\$	0.61	

Financial Condition, Liquidity and Captital Resources

Cash and cash equivalents at December 31, 2002 totaled \$76.0 million, compared to \$97.2 million at the end of last year. Of these amounts, \$72.5 million and \$93.9 million, respectively, were on deposit in joint venture and affiliate bank accounts, which Aecon cannot access directly. Marketable securities, which are held within a joint venture, amounted to \$12.6 million at December 31, 2002 compared to \$9.9 million at the end of 2001. These securities represent investments in short-term corporate debentures, the majority of which mature within 12 months of year-end.

Cash provided from operating activities, before accounting for changes in non-cash balances relating to operations, was \$1.5 million. However, because of a \$38.1 million increase in 2002 in the amount invested in non-cash balances relating to operations, there was a net cash outflow of \$36.7 million related to Aecon's operating activities. Although accounts receivable and deferred contract costs and unbilled revenues are lower than last year by \$43.4 million, the resulting cash benefit was more than offset by a decrease of \$40.5 million in accounts payable and accrued liabilities, and a reduction of \$32.4 million in deferred revenue. A large factor in this change was the impact of IST, principally as the benefit of deferred revenue (advance billings) on its contracts was virtually eliminated given the lack of new orders during the year. Also, consolidated non-cash working capital at the beginning of 2002 was extraordinarily low compared to the opening balances in 2001 and 2000.

Investing activities resulted in a use of cash of \$0.7 million. Purchases of property, plant and equipment amounted to \$4.8 million. Proceeds from the sale of property, plant and equipment amounted to \$9.1 million and included proceeds of \$4.5 million from the sale and leaseback of Aecon's corporate office in Toronto. Aecon is increasingly obtaining equipment by means of operating leases rather than outright purchase as a means of reducing ownership and valuation risk of such assets, while still maintaining competitive pricing and the flexibility to purchase such assets at a later date if valuations at such times are favourable. The sale of Aecon's industrial joint venture interest in Atlantic Canada, referred to previously, generated proceeds of \$2.6 million. Other assets increased by \$7.0 million, of which \$5.4 million represented a further deposit in trust to fund Aecon's investment in the company that is operating and collecting tolls on the Cross Israel Highway. This obligation is described in note 7 to the consolidated financial statements. The total amount currently on deposit is \$17.5 million.

Cash generated from financing activities amounted to \$17.1 million, which included \$31.5 million from the issuance of special warrants, which were subsequently converted into common shares. The major uses of cash were an \$11.2 net reduction in long-term debt, a \$1.8 million reduction in bank indebtedness and \$2.2 million for dividends.

In Aecon's international joint venture projects, a substantial amount of cash is held in foreign currencies, principally U.S. dollars. Foreign exchange effects caused a \$1.0 million reduction in cash and cash equivalents in 2002, compared to an increase of \$1.8 million in 2001. As various liabilities are also denominated in foreign currencies, the net gain on foreign exchange in 2002 was \$0.4 million, compared to a gain of \$0.8 million in 2001. At December 31, 2002, Aecon had net investments totaling approximately \$35.0 million in enterprises in the United States, Israel and India, whose underlying net assets are denominated in a variety of foreign currencies (principally U.S. dollars, NIS and rupees).

Interest bearing debt amounted to \$64.8 million at the end of 2002, compared to \$78.9 million the year before, the composition of which is as follows (\$ millions):

	2002	2001
Bank indebtedness	\$ 30.1	\$ 32.2
Current portion of long-term debt	2.3	8.7
Long-term debt	25.0	28.8
Convertible debenture	7.4	9.2
Total	\$ 64.8	\$ 78.9

The weighted average interest rate on long-term debt at December 31, 2002 and December 31, 2001 was 6.6%.

Aecon's cash flow and working capital is supplemented with a committed bank credit facility to fund working capital and operating requirements as well as a revolving term loan that was obtained in December 2002. The working capital facility, which expires on April 30, is typically renegotiated and extended for periods of up to one year to meet Aecon's anticipated requirements. Availability under the working capital facility is linked to seasonally fluctuating current assets and liabilities, including accounts receivable and certain accounts payable. The new revolving term facility has a maturity of 15 years and an annuity style amortization schedule. Availability under the revolving term loan is based on the value of certain real estate and aggregate reserve assets. On the seventh anniversary, the lender can request that a repayment be made to restore the agreed ratio between the then available loan amount and the then value of the collateral assets. The revolving term loan provides Aecon with a very flexible and stable source of operating funding.

To fund investments in property, plant and equipment, Aecon has access to several committed and uncommitted equipment financing and leasing facilities. Remaining availability under these lines of credit is sufficient to meet Aecon's anticipated requirements in 2003.

Aecon continues to maintain, as it traditionally has, very lean working capital levels. To improve the overall liquidity position of the Company and strengthen the base from which to fund continued growth initiatives, Aecon raised \$31.5 million of equity in early 2002, disposed of non-strategic assets for aggregate net proceeds of \$11.7 million and refinanced \$25 million of the working capital facility with the revolving term loan. To fund the seasonal requirements in 2003, management is currently in negotiations for an increase in operating loans currently available to the Company, and discussions continue with a small group of banks, including Aecon's existing bank lenders, with a view to establishing such working capital facility on mutually acceptable terms.

New Accounting Standards

Management is currently evaluating the impact on Aecon's financial reporting of the following new accounting standards:

Hedging Relationships

The Canadian Institute of Chartered Accountants ("CICA") issued an accounting guideline, which establishes certain conditions regarding when hedge accounting may be applied. This guideline is effective for Aecon's fiscal year beginning on January 1, 2004. Each hedging relationship will be subject to an effectiveness test on a regular basis to determine whether there is reasonable assurance that the hedge will continue to be effective. Any derivative financial instruments that do not qualify for hedge accounting will be accounted for on a mark-to-market basis.

Impairment of Long-lived Assets

CICA Section 3063, Impairment of Long-lived Assets is effective January 1, 2003. Under these new rules, an impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The impairment loss is determined by comparing the carrying amount to fair value. Under previous accounting rules, the impairment loss was determined by comparing the carrying amount to its net recoverable amount or estimated undiscounted cash flows.

Disposal of Long-lived Assets and Discontinued Operations

CICA Section 3475, Disposal of Long-lived Assets and Discontinued Operations is effective for disposal activities after May 1, 2003, although earlier adoption is permitted. Under this new accounting standard, a long-lived asset disposed of by sale should be measured at the lower of its carrying amount or fair value less cost to sell and should not be amortized while classified as held for sale. For a long-lived asset to be disposed of other than by sale, such as by abandonment, depreciation estimates are revised to fully amortize the asset over its useful life. The new rules require that the results of operations of a component of the Company that is disposed of either by sale or abandonment should be reported in discontinued operations. A component comprises operations and cash flows that can be clearly distinguished operationally and financially.

Share Purchase Loans

In December 2002, the Emerging Issues Committee of the CICA concluded that share purchase loans receivable should be presented as deductions from shareholders' equity unless there is substantial evidence that the borrower is at risk for any decline in the price of the shares and there is reasonable assurance that the enterprise will collect the full amount of the loan in cash. The new accounting interpretation is effective on January 1, 2003.

Risks and Uncertainties

Large Contract Factors

A substantial portion of Aecon's revenues is derived from large projects, some of which are conducted through joint ventures. These large projects provide opportunities for large revenue and profit contributions but can occasionally result in significant contract losses.

Opportunities for Aecon to compete for these larger projects do not occur regularly. As a result, Aecon's ability to successfully compete for these opportunities and the length of time required to execute these projects are not predictable and therefore the Company may experience periods of irregular or reduced revenues.

The recording of the impact of large project contracts can distort revenues and incomes on both a quarterly and an annual basis and in some cases makes comparison of financial results difficult in particular reporting periods.

As described more fully in note 11 to the consolidated financial statements, Aecon has a number of commitments and contingencies. If Aecon was called upon to honour these obligations, its financial results could be adversely affected.

The Nathpa Jhakri project has incurred significant delays in respect of which the joint venture, in which Aecon has a 45% interest, has submitted numerous requests for an extension of contract time as well as claims for significant compensation arising from the costs of delays and extra work resulting from changed conditions and other compensable matters. These claims amount to approximately \$144.5 million of which \$20.9 million has been received by the joint venture since commencing the project. The client has granted previous requests for extensions of contract time. In the event that the client denies the current request for extension of contract time and the joint venture is unsuccessful in its claims for additional compensation, the joint venture may be faced with potential liquidated damages claims by the client of up to a maximum amount equal to 10% of the contract value. If such possible claims were to materialize and were ultimately successful, the financial results and the financial position of Aecon could be adversely affected.

The Cross Israel project's substantial completion is being forecasted for April 2004. Tolling commenced in December 2002, with approximately 30% of the highway now open to traffic, and traffic volumes have been above anticipated levels. There are a number of claims and change (task) requests, which have been issued or are in the process of being issued, both against the construction joint venture by its subcontractors and against the client by the construction joint venture. Allowances have been taken for these costs and probable recoveries on change (task) requests. The joint venture may be faced with liquidated damages which are capped at 10% of the contract value if it delivers the project late. However, management believes that such damages are unlikely and any delay in delivery will be alleviated by the granting of an extension of time in the contract schedule, which would include relief from liquidated damages, and/or by income earned from operation of the highway during the delay period, which would reduce any amounts due for liquidated damages. Aecon has provided numerous guarantees in support of its various performance and financial obligations in this project (refer to note 11 in the consolidated financial statements). If such guarantees were to be called upon, the financial results and the financial position of Aecon could be adversely affected.

Ongoing Financing Availability

Aecon's business strategy involves the continued growth of its operations through internal growth and acquisitions. Aecon's ability to successfully bid on contracts for major projects is fundamental to its internal growth. Certain of Aecon's operating segments, including its infrastructure development business, require substantial capital in order to bid on contracts. Aecon is continually seeking to enhance its access to funding in support of its growth. However, from time to time, Aecon is constrained in its ability to capitalize on new infrastructure development and other growth opportunities to the extent that financing is insufficient or unavailable. Aecon enhanced its access to funding through its 2002 equity issue and through the new revolving term loan. The revolving term loan provides both stability and flexibility in Aecon's financing structure. This term loan is primarily supported by collateral assets which are not part of the collateral pool of short-term assets ("Borrowing Base"), which constitutes the primary collateral support of the working capital facility. The utilization of the working capital facility follows a distinct seasonal pattern in parallel with the seasonal changes in investments in current assets. Within the constraints of overall leverage parameters, Aecon is looking to attract substantially more working capital financing than it currently has in place. The limit of the existing working capital facility, which expires on April 30, 2003, is \$30 million. The renewal and increase in this facility is expected but is not certain.

Aecon is dependent upon the continued access to working capital and equipment related financing sources to finance its day to day operations. Aecon's direct access to working capital lines of credit is subject to continued compliance with certain financial ratios and other terms and conditions and annual renewal of these accommodations by Aecon's lenders. To the extent that Aecon's cash flow is generated through, and its assets reside in joint ventures, Aecon's access to financing may be limited as the Company's lenders generally do not consider such cash flow and assets in their credit assessments. If Aecon's access to these credit facilities were reduced or eliminated, it would adversely impact the financial results and position of the Company.

Access to Bonding and Pre-qualification Rating

Most of Aecon's construction contracts require either sufficient bonding or pre-qualification rating. Management is aware of the worldwide reduction in surety capacity and is continually monitoring the surety market through its broker and surety firm. Should sufficient surety capacity not be available, this would have a material adverse effect on the ability of Aecon to operate its business.

International/Foreign Jurisdiction Factors

Aecon is from time to time engaged in large international projects in foreign jurisdictions. Currently Aecon is involved in projects in India, Israel, Kenya, Poland, China, Ecuador and the United States. International projects such as the Nathpa Jhakri project in northern India and the Cross Israel Highway in Israel can expose Aecon to risks beyond those typical for its activities in its home market, including geopolitical and military risks and currency and foreign exchange risks.

The anticipated contribution of various foreign projects to the financial results of Aecon may be adversely affected by local political, military, economic and other events beyond the Company's control including several current projects that are located in regions that are, at the present time, facing heightened geopolitical tensions. Aecon continually evaluates its exposure to unusual risks inherent in international projects and, where deemed appropriate in the circumstances, mitigates these risks through specific contract provisions, insurance coverage and forward exchange agreements. However, there are no assurances that such measures would offset or materially reduce the effects of such risks.

Foreign exchange risks are actively managed and hedged where possible and considered cost effective, when directly tied to contractual cash flows accruing directly to Aecon within periods of one or two years. Major projects executed through joint ventures generally have a longer term and result in foreign exchange translation exposure. Such translation exposure will have an impact on Aecon's consolidated financial results. Cost effective hedging options to fully hedge this exposure are not generally available and the remaining exposure may have a material effect on the future results of Aecon.

Contractual Factors

A substantial portion of Aecon's revenue is derived from lump-sum contracts pursuant to which a commitment is provided to the owner of the project to complete the project at a guaranteed maximum price ("GMP"). In GMP projects, in addition to the risk factors of a unit price contract (as described below), any errors in quantity estimates must be absorbed within the GMP, thereby adding a further risk component to the contract.

Aecon is also involved in fixed unit price construction contracts under which the Company is committed to provide services and materials at a fixed unit price (e.g, dollars per tonne of asphalt or aggregate). While this shifts the risk of estimating the quantity of units to the contract owner, any increase in Aecon's cost over the unit price bid, whether due to estimating error, inefficiency in project execution, inclement weather, inflation or other factors, will negatively affect Aecon's profitability.

In certain instances, Aecon guarantees to a customer that it will complete a project by a scheduled date or that the facility will achieve certain performance standards. If the project or facility subsequently fails to meet the schedule or performance standards, Aecon could incur additional costs or penalties commonly referred to as liquidated damages.

Aecon is increasingly involved in design-build contracts where, in addition to the responsibilities and risks of a unit price or lump-sum construction contract, Aecon is responsible for certain aspects of the design of the facility being constructed. This form of contract adds the risk of Aecon's liability for design errors.

Certain of Aecon's contractual requirements may also involve financing elements, where Aecon is required to provide one or more of letters of credit, performance bonds, financial guarantees or equity investments. There can be no assurance that Aecon will be able to obtain the necessary financing on favourable or commercially reasonable terms and conditions.

Disputes with clients for additional payments owing as a result of changes in contract specifications, delays, additional work or changed conditions are an unfortunate but sometimes unavoidable part of the construction process. Aecon's accounting policy is to record all costs for these changes when known and not record the revenue anticipated from claims until they are resolved. The timing of the resolution of such events can thereby have a material impact on income and liquidity and thus can cause fluctuations in the revenue and income of Aecon in any one reporting period.

Economic Factors

Aecon's profitability is closely tied to the general state of the economy in those geographic areas in which it operates. More specifically, the demand for infrastructure, which is the principal component of Aecon's operations, is perhaps the largest single driver of the Company's growth and profitability.

In North America, which tends to have relatively sophisticated infrastructure, Aecon's profitability is dependent both on the development of basic infrastructure (highways, airports, dams, hydro-electric plants, etc.) and on the type of infrastructure that flows from commercial and population growth. Commercial growth demands incremental facilities for the movement of goods within and outside of the community, along with water and sewer systems and heat, light and power supplies. Population growth creates a need to move people to and from work, schools and other public facilities, and demands similar services to new homes. Since growth in both these areas, with the possible exception of road maintenance and construction, is directly affected by the general state of the local economy, the general strength or weakness of the economy can have a significant impact on Aecon's operations.

Internationally, Aecon is much more involved with the development of basic infrastructure, particularly in developing countries. As such, the Company's growth and profitability from this work depends largely on the pace of growth in these foreign jurisdictions and the ability of these countries to allow for the arrangement of long-term financing.

Environmental Factors

Unfavourable weather conditions represent one of the most significant uncontrollable risks for Aecon. Construction projects are susceptible to delays as a result of extended periods of poor weather which can have an adverse effect on profitability from either late completion penalties imposed by the contract owner or from the incremental costs of overtime work utilized to offset the time lost due to weather.

During its history, Aecon has experienced a number of incidents, emissions or spills of a non-material nature in the course of its construction activities. Although none of these environmental incidents to date have resulted in a material liability to Aecon, there can be no guarantee that any future incidents will also be of a non-material nature.

Aecon is subject to and complies with federal, provincial and municipal environmental legislation in all of its manufacturing and construction operations. Aecon recognizes that it must conduct all of its business in such a manner as to both protect and preserve the environment in accordance with said legislation. At each place where work is performed, Aecon develops and implements a detailed quality control plan as the primary tool to demonstrate and maintain compliance with all environmental regulations and conditions of permits and approvals. Management is not aware of any pending environmental legislation which would be likely to have a material impact on any of its operations, capital expenditure requirements or competitive position, although there can be no guarantee that any future legislation will not be material.

Labour Factors

A significant portion of Aecon's labour force is unionized and accordingly, Aecon is subject to the detrimental effects of a strike or other labour unrest in addition to competitive cost factors.

Dependence on the Public Sector

A significant portion of Aecon's revenues is derived from contracts with various governments or their agencies. Consequently, any reduction in demand for Aecon's services by the public sector would likely have an adverse effect on the Company if that business could not be replaced from within the private sector.

Given the long lead time typically associated with the government review and awarding of public sector contracts and the significant costs incurred by companies during this process, there are some cost risks associated with continuing to bid on these types of contracts.

Potential Fluctuation in Quarterly Financial Results and Volatility of Public Markets

Aecon's quarterly financial results may be impacted by a variety of factors including, without limitation: the recognition of revenue from existing large project contracts; the opportunity to compete for new large projects; costs or penalties associated with unanticipated delays in project completion; fluctuations in the general economic and business conditions in the markets in which Aecon operates which may impact pricing levels of its services; actions by governmental authorities including government demand for the services provided by Aecon; government regulations and the associated expenditures required to comply with regulations; labour unrest involving Aecon's unionized workers; seasonal weather conditions; the risk associated with the use of guaranteed maximum price contracts; geopolitical risks in the foreign jurisdictions in which Aecon operates as well as risk associated with foreign currency and exchange rates; and other circumstances affecting revenue and expenses. Aecon's operating expenses are incurred throughout the quarter. As a result, if expected revenues are not realized as anticipated, the Company's quarterly financial results could be materially adversely affected. Accordingly, there may be significant variations in Aecon's quarterly financial results.

Outlook

With war in Iraq, sluggish capital markets in North America and a host of conflicting economic indicators around the world, Canada's economic outlook remains uncertain. Mitigating this uncertain outlook somewhat are the positive signs that governments in Canada may be preparing to increase infrastructure spending, especially in Ontario and Quebec where provincial elections are either currently underway or are widely expected within the year.

Aecon's backlog of work awarded, sometimes viewed as a good indicator of future revenue prospects, fell by \$93 million (or 13%) to \$628 million in the fourth quarter of 2002. This conceals however the impact of two significant fourth quarter contract awards. In October, Aecon announced that a consortium it leads had signed a series of core agreements for the development and construction of the new international airport in Quito, Ecuador. Aecon's share of the US\$350 million construction revenue from this project will not be added to Aecon's backlog until the project reaches financial close, expected this summer. At that time, Aecon's large project backlog will jump sharply as a majority of the project's construction requirements are expected to be delivered by Aecon.

In December, Aecon also announced the establishment of a strategic relationship with Minto Developments Inc., ("Minto") including the award of three new construction management projects totaling \$265 million in construction value. Under construction management arrangements, the contractor is paid a fee to manage construction of the project on behalf of the owner. In such arrangements, contracts with subtrades and suppliers are held directly by the project owner, who

retains most of the construction risk inherent in the project. This differs from traditional general contractor arrangements, where the contractor provides a full project price to the owner and then contracts with the subtrades and suppliers himself, assuming a greater portion of the construction risk. In these arrangements the full cost of the project passes through the contractor's books, much of it billed to the owner and then passed on to subtrades and suppliers as their work is completed. As such, in general contractor arrangements, the full construction value of the project is added to the contractor's backlog when a project is awarded.

Under construction management arrangements, such as those awarded to Aecon by Minto, only the contractor's fees are added to backlog when the project is awarded. This vastly different treatment of backlog must be taken into account when comparing backlog calculations in two different periods, especially when the mix of general contracting work and construction management work has changed substantially.

In Aecon's Infrastructure segment, core backlog at the end of 2002 increased to \$244 million from \$198 million a year earlier. This increase was more than offset by the decline in major project backlog, as Aecon's two major international projects, the Cross Israel Highway and the Nathpa Jhakri hydroelectric project in India progressed toward completion. In total, Aecon's Infrastructure backlog fell to \$359 million at the end of 2002 from \$434 million a year earlier. It is to this segment's major project backlog that the Quito airport project will be added pending financial close this summer.

Within the segment a number of different trends are apparent. Backlog in both the Ontario-based road building business and in the Quebec infrastructure market increased sharply during 2002, reflecting improved prospects in these two core businesses, while backlog in the utilities sector declined in 2002, due largely to continuing challenges in the telecom industry.

The increase in road building backlog is partly a result of the delay in contract awards in 2002 caused by the public service strike last spring. As a result of the delay, several projects that could have been substantially completed within the year remain in backlog for completion in 2003. This healthy backlog, combined with anticipated pre-election road building announcements, bodes well for Aecon's road building business in 2003.

The Quebec infrastructure market has emerged as a strong one for Aecon, highlighted by the award in 2002 of two contracts totaling \$86 million for construction at the Toulnustouc hydro-electric facility in northeastern Quebec. Aecon's presence in this market has been growing in the wake of the Company's reorganization in Quebec including the establishment of Groupe Aecon Ltée to focus on this market.

While the utilities sector continues to suffer the effects of the decline in the telecom industry, there are promising signs that new opportunities in other areas may help to mitigate these challenges. Such opportunities include our continuing work with Union Gas and the recent award to Aecon by Enwave District Energy of Toronto of an alliance agreement contract to carry out its local services and distribution work.

Aecon's Buildings segment appears poised to carry its strong 2002 performance into 2003. While segment backlog is down substantially to \$180 million from \$278 million a year ago, much of this decline is due to the changed mix of construction management versus general contracting work as outlined above.

The focus placed in 2002 on growing the renovation and retrofit business and developing strategic client relationships within this segment have brought progress in both areas. Strategic relationships developed with Morguard Investments and Minto Developments, two of Canada's leaders in the property development business, provide potential long-term benefits for Aecon. Another area where Aecon looks for long-term benefits is in its interiors and renovations business, which had a strong year in 2002 with several new contracts and prospects for continued growth.

A substantial portion of Aecon's increased participation in the Canadian Public Private Partnership ("P3") market is also taking place within the Buildings segment. Aecon is participating in consortia bidding for the William Osler Health Centre in Brampton, Ontario, the Royal Ottawa Hospital in Ontario, as well as the Vancouver General Hospital in British Columbia. The award of any one of these important P3 projects would have a material positive impact, likely beginning in 2004.

Aecon's Industrial segment enters 2003 with a backlog of \$63 million, down from \$71 million a year earlier. Again, this conceals conflicting trends within the segment as the backlog in Aecon's once-through steam generator ("OTSG") business saw backlog decline sharply throughout 2002, while backlog in the balance of the segment increased.

As discussed earlier in this MD&A, the decline in the power industry had a serious negative impact on Aecon's OTSG business as the market for this product evaporated along with backlog. While aggressive cost cutting, a refocused marketing effort and an increase in new orders will all serve to mitigate the risks in this business, 2003 promises to be another challenging one in the power industry.

Offsetting much of the decline in backlog in the steam generator business is the substantial growth in backlog within the Industrial segment's fabrication and module assembly business. New orders from strong clients such as General Electric and Syncrude, as well as the general improvement of prospects in the oil and gas sector, particularly in northern Alberta, have created new opportunities for this business and an optimistic outlook for 2003.

Finally, the renewed and continuing effort to reduce SG&A and improve efficiencies across the Company, as well as a strengthened focus on improving return on capital within the divisions, is expected to improve profitability in 2003. Return on capital has been established as the key measure of performance on a division by division basis, with divisional executive incentives tied to this performance measure among others.

Current events have created significant economic uncertainty that may affect demand for our services, project timing, interest rates and other important business variables for Aecon. While these uncertainties prevent management from offering detailed guidance regarding net income and earnings per share expectations, management expects substantially improved results in 2003. Revenue in 2003 is expected to approximate the record levels of 2001 and net income should make strong gains from the disappointing results achieved in 2002. A substantial portion of these gains will be the result of Aecon's significant business development investments in 2002, most of which are expected to begin generating returns in 2003. It should be noted, however, that especially in the case of investments in new infrastructure development and P3 projects, the full impact of these investments would not be felt until 2004.

Forward-looking Information

In various places in Management's Discussion and Analysis and in other sections of this document, management's expectations regarding future performance of Aecon was discussed. These "forward-looking" statements are based on currently available competitive, financial and economic data and operating plans but are subject to risks and uncertainties. Forward-looking statements include information concerning possible or assumed future results of operations or financial position of Aecon, as well as statements preceded by, followed by, or that include the words "believes", "expects", "anticipates", "estimates", "projects", "intends", "should" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of Aecon and could cause those results to differ materially from those expressed in any forward-looking statements.

AUDITORS' REPORT

To the Shareholders of Aecon Group Inc.

We have audited the consolidated balance sheets of Aecon Group Inc. as at December 31, 2002 and 2001 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Pricewaterhouseloopers LLP

Chartered Accountants Mississauga, Ontario March 5, 2003

CONSOLIDATED BALANCE SHEETS

As at December 31 (in thousands of dollars)	2002	2001
Assets		
Current assets		
Cash and cash equivalents (note 3)	\$ 76,006	\$ 97,215
Marketable securities (note 3)	12,578	9,882
Accounts receivable (note 4)	154,889	187,259
Holdbacks receivable	40,056	40,655
Deferred contract costs and unbilled revenue	58,717	74,211
Inventories	13,478	11,156
Prepaid expenses	5,276	3,936
Future income tax assets (note 5)	10,724	34,526
	371,724	458,840
Property, plant and equipment (note 6)	80,192	92,772
Future income tax assets (note 5)	22,728	3,787
Other assets (note 7)	41,076	33,854
	\$ 515,720	\$ 589,253
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	\$ 30,136	\$ 32,180
Accounts payable and accrued liabilities (note 4)	172,105	215,867
Holdbacks payable	27,396	27,769
Deferred revenue	68,036	101,260
Income taxes payable	1,642	3,034
Future income tax liabilities (note 5)	24,298	46,239
Current portion of long-term debt (note 8)	2,349	8,752
	325,962	435,101
Long-term debt (note 8)	24,957	28,791
Employee benefit plans (note 17)	1,764	2,922
Future income tax liabilities (note 5)	17,825	7,097
Redeemable preferred shares of subsidiary (note 9)	6,310	6,371
Convertible debenture (note 10)	7,348	9,195
	384,166	489,477
Commitments and contingencies (note 11)		
Shareholders' Equity		
Capital stock (note 12)	68,336	33,713
Contributed surplus	68	_
Convertible debenture (note 10)	836	1,075
Retained earnings	62,314	64,988
	131,554	99,776
	\$ 515,720	\$ 589,253

Approved by the Board of Directors

John M. Beck, Director

Scott C. Balfour, Director

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 (in thousands of dollars, except per share amounts	s)	2002	2001
Revenues	\$	1,072,964	\$ 1,138,864
Costs and expenses		1,005,138	1,033,591
Marketing, general and administrative expenses		56,096	51,520
Depreciation and amortization		9,824	10,508
(Gain) loss on sale of assets		(774)	446
Provision for loss on impairment of assets (note 13)		-	12,900
(Gain) loss on disposal of joint venture (note 4)		(1,169)	_
Interest expense, net (note 14)		2,926	5,578
		1,072,041	1,114,543
Income before income taxes		923	24,321
Income taxes (note 5)			
Current		7,045	9,391
Future		(6,352)	2,544
		693	11,935
Net income for the year	\$	230	\$ 12,386
Earnings per share (note 12)			
Basic	\$	0.01	\$ 0.69
Diluted	\$	0.01	\$ 0.61
Average number of shares outstanding (note 12)			
Basic		22,688,629	17,974,070
Diluted		25,361,200	20,995,070

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31 (in thousands of dollars)	2002	2001
Retained earnings - beginning of year	\$ 64,988	\$ 52,617
Add (deduct):		
Net income for the year	230	12,386
Change in accounting policies (note 2)	(659)	-
Dividends	(2,245)	-
Common shares purchased in excess of		
carrying amount (note 12)	-	(15)
Retained earnings - end of year	\$ 62,314	\$ 64,988

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in thousands of dollars)	2002	2001
Cash provided by (used in)		
Operating activities		
Net income for the year \$	230	\$ 12,386
Items not affecting cash-		
Depreciation and amortization	9,824	10,508
(Gain) loss on sale of assets	(774)	446
Provision for loss on impairment of assets	_	12,900
Gain on disposal of joint venture (note 4)	(1,169)	_
Gain on foreign exchange	(428)	(796)
Notional interest representing accretion	123	165
Future income taxes	(6,352)	2,544
	1,454	38,153
Change in other balances relating to operations (note 15)	(38,105)	40,937
	(36,651)	79,090
Investing activities		
Purchase of property, plant and equipment	(4,855)	(14,673)
Proceeds on sale of property, plant and equipment	9,053	3,687
Acquisition (note 16)	(484)	_
Proceeds on sale of joint venture (note 4)	2,603	_
Increase in other assets	(7,045)	(17,699)
	(728)	(28,685)
Financing activities		
Decrease in bank indebtedness	(1,838)	(3,676)
Issuance of long-term debt	14,786	21,165
Repayments of long-term debt	(25,971)	(21,944)
Issuance of capital stock (note 12)	919	340
Issuance of special warrants (note 12)	31,495	-
Dividends paid	(2,245)	(1,798)
Repurchase of capital stock (note 12)	-	(44)
	17,146	(5,957)
Increase (decrease) in cash and cash equivalents	(20,233)	44,448
Effects of foreign exchange on cash balances	(976)	1,791
Cash and cash equivalents - beginning of year	97,215	50,976
Cash and cash equivalents - end of year \$	76,006	\$ 97,215

Supplementary disclosure (note 15)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2002 and 2001 (in thousands of dollars, except per share amounts)

1 Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, as well as its pro rata share of assets, liabilities, revenues, expenses, net income and cash flows of its joint ventures. Note 4 summarizes the effect of the joint ventures on these consolidated financial statements.

Use of significant accounting estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. A certain amount of uncertainty is inherent in estimating the costs of completing construction projects. The impact on the consolidated financial statements of future changes in such estimates could be material.

Cash and cash equivalents

The Company considers investments purchased with original maturities of three months or less to be cash equivalents. Cash held by joint ventures is for the sole use of joint venture activities.

Accounting for contracts

Revenue and income from fixed price construction contracts, including contracts in which the Company participates through joint ventures, are determined on the percentage of completion method, based on the ratio of costs incurred to date over estimated total costs. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Contract costs include all direct material and labour costs and those indirect costs relating to contract performance such as indirect labour and supplies, tools and repairs. For large multi-year fixed price contracts, income is recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Consulting contracts to manage or supervise construction activity of others are recognized only to the extent of the fee revenue. Revenues from cost plus fee contracts are recognized on the basis of costs incurred. Provision is made for anticipated contract losses as soon as they are evident. Revenues from change orders are recorded when recovery is likely to occur. Claims for additional contract compensation are not recognized until resolved.

Deferred contract costs and unbilled revenues represent costs incurred and revenues earned in excess of amounts billed on uncompleted contracts. Deferred revenue represents the excess of amounts billed over costs incurred and revenue earned on uncompleted contracts. Contract advances are included in deferred revenue and represent advance payments received from clients for mobilization of project staff, equipment and services.

The operating cycle, or duration, of many of the Company's contracts exceeds one year. All contract-related assets and liabilities of such contracts are classified as current as they are expected to be realized or satisfied within the operating cycle of the contract.

Inventories

Inventories are recorded at the lower of cost and net realizable value, with the cost of materials and supplies determined on a first-in, first-out basis and aggregate inventories determined at weighted average cost.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated amortization. Amortization of aggregate properties is calculated using the unit of extraction method. Depreciation of other property, plant and equipment is provided on a straight-line basis using annual rates that approximate the estimated useful lives of the assets as follows:

Buildings	20 to 40 years
Roadways and leaseholds	5 to 10 years
Construction equipment and vehicles	2 to 15 years
Computer hardware and software	3 to 5 years
Furniture and fixtures	5 to 8 years

When joint ventures are established to perform single contracts and equipment is acquired for use during the contract and disposed of upon completion of the contract, the cost of such equipment, net of estimated salvage value, is treated as a contract cost and is not included in property, plant and equipment.

Investments

Investments in entities where the Company exercises significant influence are accounted for using the equity method. These investments are recorded at cost plus the share of income or loss to date less dividends received.

Other investments, where the Company exercises neither significant influence or control, are carried at cost. If there is other than a temporary decline in value, investments are written down to provide for the loss.

Goodwill

Goodwill represents the excess of the cost of acquisitions over the fair value of net identifiable assets acquired. Goodwill is not amortized but is subject to an annual impairment test, or earlier when circumstances indicate an impairment may exist. When the estimated fair value of goodwill is lower than its carrying amount, the difference is charged against income.

Prior to January 1, 2002, goodwill was amortized on a straight-line basis over five to fifteen years. Goodwill was written down when declines in value were considered to be other than temporary, based on undiscounted future cash flows.

Income taxes

The Company follows the asset and liability method of tax accounting for future income taxes. Temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in the periods when the temporary differences are expected to reverse.

Employee benefit plans

The Company recognizes the cost of retirement benefits over the periods in which employees render services in return for the benefits. The Company sponsors defined contribution pension plans and defined benefit pension plans (which had their membership frozen as of January 1, 1998) for its salaried employees. The Company matches employee contributions to the defined contribution plans, which are based on a percentage of earnings for services rendered by the employees. For the defined benefit pension plans, current service costs are charged to operations as they accrue based on services rendered by employees during the year. Pension benefit obligations are determined by

independent actuaries using management's best estimate assumptions with accrued benefits prorated on service. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses, and the difference between the actuarial present value of accrued benefits and the value of pension fund assets are amortized over the expected average remaining service life of the employee group (note 17).

Stock-based compensation plan

The Company has a stock-based compensation plan, as described in note 12. Stock options are issued at an exercise price no less than the market value of the Company's shares at the date of issuance. The Company has adopted fair value accounting and expensed employee stock options issued after January 1, 2002 (note 2).

Translation of foreign currencies

The accounts of the Company, its foreign subsidiaries and joint ventures stated in foreign currencies have been translated into Canadian dollars using:

- the fiscal year-end exchange rates for monetary items, which include cash, amounts receivable, accounts payable and long-term debt;
- exchange rates in effect at the time of the transaction for non-monetary assets, liabilities and deferred credits; and
- average exchange rates prevailing during the year for revenue and expenses, except for depreciation, which has been translated at rates pertaining to the related assets.

All other foreign exchange gains or losses are included in the consolidated statements of income.

Earnings per share

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method to compute the dilutive effect of stock options and convertible debentures. Under this method, dilutive securities are assumed to be exercised only when the exercise price is below the average price of the Company's stock.

2 Adoption of new accounting standards

Effective January 1, 2002, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants for Stock-Based Compensation and Other Stock-Based Payments. In accordance with these recommendations, the liability for stock-based awards that will be settled in cash, which is recognized through compensation expense, are recorded at an amount equivalent to the quoted market value of the related shares. For Aecon's stock-based compensation arrangement (referred to as phantom share agreements), the new section requires that the cumulative amount that would have been recognized in prior years had this new section been in effect, less any amounts previously recognized, is to be recognized as the effect of a change in accounting policy and charged to opening retained earnings at January 1, 2002. Subsequently, at each balance sheet date before settlement, the changes in the share value will result in an adjustment to the award liability, which is recognized through compensation expense. As a result of adopting the new recommendations, retained earnings at January 1, 2002 have been reduced by \$659 and compensation expense has been

increased by \$161 for the year ended December 31, 2002. The Company has adopted fair value accounting to account for employee stock options issued after January 1, 2002. During the year ended December 31, 2002, 75,000 options were granted to employees for which compensation expense of \$68 was recognized and contributed surplus was increased by the same amount. In addition, 166,750 non-transferable compensation warrants, exercisable into 166,750 compensation options, were granted to the underwriters in connection with the issuance of special warrants (note 12).

Effective January 1, 2002, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants for Goodwill and Other Intangible Assets. In accordance with these recommendations, the accounting for goodwill is changed from an amortization method to an impairment-only approach. As a result, goodwill will no longer be amortized to income but will be subject to an annual impairment review and should there be impairment, that amount would be charged to income. An impairment charge of \$168 was recorded in earnings during the year ended December 31, 2002 (note 16). Goodwill amortization amounted to \$894 for the year ended December 31, 2001. The impact on basic earnings per share in 2001 was \$0.05.

3 Cash and cash equivalents, marketable securities and bank indebtedness

- (a) Cash and cash equivalents as at December 31, 2002 include \$72,484 (2001 \$93,959), which is on deposit in joint venture and affiliate bank accounts that the Company cannot access directly. Marketable securities of \$12,578 (2001 \$9,882) are held within a joint venture and these securities cannot be accessed directly by the Company.
- (b) At December 31, 2002, the Company had operating lines of credit totalling \$31,250 (2001 \$45,750), of which \$14,497 (2001 \$25,799) was unused. Utilization amounted to \$16,753 (2001 \$19,951) and included bank loans of \$11,383 (2001 \$14,589) and letters of credit of \$5,370 (2001 \$5,362). In addition, the Company has a revolving term loan facility in the amount of \$25,000 of which \$5,000 has been utilized (note 8(a)).
- (c) Interest rates on the bank loans outstanding at December 31, 2002 generally bear interest at Canadian prime rate plus 1.25% to 1.5%.
- (d) Included in bank indebtedness is the Company's proportionate share of bank loans of the joint venture that is building the Nathpa Jhakri Hydro-electric Project in India amounting to \$18,753 (2001 \$17,591), which bear interest at a weighted average rate of 4.02% (2001 6.72%). The full amount of the joint venture operating line and borrowings, amounting to \$41,674 (2001 \$42,076), is secured by letters of credit which are guaranteed by the Company and by Hochtief AG, the parent of the Company's principal shareholder.

Of the operating lines of credit, \$30,000 was secured by general security agreements that include assignments of accounts receivable, holdbacks receivable and pledges of inventory, and equipment and was also secured by second position fixed and floating charge debentures over certain assets of the Company, and \$1,250 was secured by general security agreements that include assignments of accounts receivable, holdbacks receivable and pledges of inventory and equipment of a subsidiary company.

4 Joint ventures

The Company participates in several incorporated and unincorporated joint ventures and the consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses, net income and cash flows of these joint ventures.

(a) The following table sets out the Company's proportionate share of the assets, liabilities, venturers' equity, revenues, expenses, net income and cash flows of these joint ventures:

	2002	2001
Assets		
Current	\$ 158,521	\$ 191,561
Property, plant and equipment	12,633	13,227
Other	18,472	12,156
	\$ 189,626	\$ 216,944
Liabilities		
Current	\$ 130,927	\$ 162,567
Long-term	6,546	6,823
Venturers' equity	52,153	47,554
	\$ 189,626	\$ 216,944
Revenues	\$ 300,030	\$ 301,650
Expenses	286,748	293,211
Net income	\$ 13,282	\$ 8,439
Cash provided by (used in)		
Operating activities	\$ (4,872)	\$ 21,544
Investing activities	(5,800)	(12,328)
Financing activities	(7,614)	34,063
	\$ (18,286)	\$ 43,279

- (b) The Company is either contingently or directly liable for obligations of its unincorporated joint ventures. The assets of the joint ventures are available for the purpose of satisfying such obligations.
- (c) The Company enters into transactions in the normal course of operations with its joint ventures, which are measured at the exchange amount, being the amount of consideration established and agreed to by the parties involved. During the year, the Company generated revenues of \$11,189 (2001 \$16,563) from its joint venture partners. At December 31, 2002, the Company has included in accounts receivable \$3,361 (2001 \$5,461) owing from its joint ventures. At December 31, 2002, the Company has included in accounts payable and accrued liabilities \$251 (2001 \$369) owing to its joint ventures.
- (d) During 2002, the Company received proceeds of \$2,603 and realized a pre-tax gain of \$1,169 from the sale of a joint venture interest.

5 Income taxes

The provision for income taxes differs from the result that would be obtained by applying combined Canadian federal and provincial (Ontario) statutory income tax rates to income before income taxes. This difference results from the following:

	2002	2001
Income before income taxes	\$ 923	\$ 24,321
Statutory income tax rate	38.62%	42.12%
Expected income tax	356	10,244
Effect on income tax of		
Provincial and foreign rate differential	570	(725)
Manufacturing and processing rate differential	401	(1,292)
Non-deductible portion of provision for loss		
on impairment of assets	-	4,039
Reversal of valuation allowances	-	(4,060)
Effect of substantively enacted future rates	(888)	(762)
Increase in liability for taxes of prior years	-	3,091
Large corporations tax	282	364
Other	(28)	1,036
Income tax expense	\$ 693	\$ 11,935

The Company and certain subsidiaries have accumulated non-capital income tax losses, the benefit of which has been recognized in these consolidated financial statements, of approximately \$52,536 (2001 - \$64,666), which may be used to reduce future taxable income and expire in the following years:

2003	\$ 12
2004	192
2005	9,079
2006	8,327
2007	18,981
2008	2,490
2009	13,455
	\$ 52,536

The components of future income tax assets and liabilities are as follows:

	Current			Long-term			
	2002		2001		2002		2001
Future income tax assets							
Net operating and capital losses carried forward	\$ _	\$	23,278	\$	15,538	\$	1,529
Reserves expensed for financial statement							
purposes and deducted for income							
tax purposes when paid	1,722		3,342		_		-
Property, plant and equipment-							
Net book value in excess of tax basis	_		-		1,554		-
Long-term contracts including joint ventures (1)	8,084		7,254				
Other temporary differences	918		652		5,636		2,258
Total future income tax assets	\$ 10,724	\$	34,526	\$	22,728	\$	3,787
Future income tax liabilities							
Property, plant and equipment-							
Net book value in excess of tax basis	\$ _	\$	_	\$	4,365	\$	4,982
Long-term contracts including joint ventures (1)	24,191		33,973		-		_
Other temporary differences and reserves	107		12,266		13,460		2,115
Total future income tax liabilities	\$ 24,298	\$	46,239	\$	17,825	\$	7,097

⁽¹⁾ Results from the difference between the use of percentage of completion method of reporting for financial statement purposes and use of uncompleted contracts and billings less costs, excluding contractual holdbacks, for tax purposes.

6 Property, plant and equipment

			2002
		Accumulated depreciation	
	Cost	and amortization	Net
Land and improvements	\$ 7,874	\$ _	\$ 7,874
Buildings	13,258	1,335	11,923
Construction-in-progress	11,496	_	11,496
Aggregate properties	12,661	1,224	11,437
Machinery and equipment	75,203	37,741	37,462
	\$ 120,492	\$ 40,300	\$ 80,192

			2001
		Accumulated depreciation and	
	Cost	amortization	Net
Land and improvements	\$ 9,561	\$ _	\$ 9,561
Buildings	16,660	1,144	15,516
Construction-in-progress	11,496	-	11,496
Aggregate properties	12,661	776	11,885
Machinery and equipment	77,836	33,522	44,314
	\$ 128,214	\$ 35,442	\$ 92,772

Included in property, plant and equipment is equipment of \$9,846 (2001 - \$8,023) held under capital leases, with accumulated depreciation of \$2,711 (2001 - \$2,169).

Construction-in-progress represents the Company's share of the cost, less provision for impairment, of a partially completed grain terminal in Gdansk, Poland (note 13).

7 Other assets

	2002	2001
Goodwill	\$ 9,233	\$ 9,064
Deposits held in trust	17,511	12,157
Loans receivable	6,075	6,414
Income tax deposit (note 11(e))	5,414	5,414
Other	2,843	805
	\$ 41,076	\$ 33,854

The Company is required to deposit in trust with a Canadian financial institution by April 2004 an amount of US\$26,700 to fund an investment in a company that will operate the Cross Israel Highway and collect tolls. Letters of credit have been issued by the Export Development Corporation on behalf of the Company in support of this obligation (see note 11). At December 31, 2002, short-term interest bearing deposits held in trust in respect of this obligation amounted to \$17,511 (US\$11,100) (2001 - \$12,157 (US\$7,632)).

Loans receivable include \$4,472 (2001 - \$4,249) from Capital Projects Group Inc. (CPGI), a company that has an 11.3% indirect interest in Europort Inc. Poland Sp. z o.o., which is the company developing a grain terminal and handling facility in Gdansk, Poland (note 13) and a 7.5% indirect interest in Strait Crossing Development Inc. (SCDI), which owns and operates the Confederation Bridge in eastern Canada. Security for the loan is 60 common shares of SCDI. Interest at prime plus 3.5% to June 30, 2001 and prime plus 1% thereafter is accrued annually and added to the loan balance, which is due on December 31, 2005 (note 18).

Also included in loans receivable are loans to directors, senior officers and employees granted to purchase shares of the Company in the amount of \$1,603 (2001 - \$1,723). These loans are unsecured and bear interest, which is payable quarterly at Canada Customs and Revenue Agency's prescribed quarterly rates. Repayment terms for principal vary with some loans requiring fixed quarterly repayments and others having flexible repayment terms. Included in loans receivable in 2001 was a mortgage receivable of \$442, which was repaid in 2002.

8 Long-term debt

	Notes	2002	2001
Revolving term loan	(a)	\$ 5,000	\$ -
Capital leases and equipment loans	(b)	15,788	23,012
Bank term debt	(c)	_	7,500
Real estate financing	(d)	5,640	5,781
Other		878	1,250
		27,306	37,543
Less: Amounts due within one year		2,349	8,752
		\$ 24,957	\$ 28,791

The following describes the components of long-term debt:

- (a) The Company has a \$25,000 revolving term loan facility, principally secured by first position collateral mortgages over certain of the Company's real estate assets and its aggregate reserves on such properties. The loan is available in either Canadian or U.S. dollars. The maximum availability under the facility reduces annually according to a mortgage-style amortization schedule based on an assumed 7% interest rate and a fifteen-year amortization period. Interest on borrowings under the facility is based on reference rates established and re-established by the Lender on a monthly basis by reference to US LIBOR, Canadian Prime or 30 day Canadian Bankers' Acceptances. At December 31, 2002, an amount of \$5,000 had been borrowed under the facility, bearing interest at 5.63%. After seven years, the Lender may reduce the maximum facility amount to the extent that it exceeds 60% of the appraised value of the loan collateral. At that time, the applicable interest margins can also be re-established at the Lender's discretion up to a maximum increase of 50 basis points.
- (b) Capital leases and equipment loans bear interest as at December 31, 2002, at an average rate of 6.96% (2001 6.90%) per annum, with specific equipment provided as security.
- (c) Bank term debt of \$7,500 was paid in 2002. Bank term debt was repayable by way of quarterly principal payments of \$625, with monthly payments of interest at prime plus 1.5%. It was secured by second position general security agreements and first position collateral mortgages over certain of the Company's real estate assets.
- (d) Mortgages are secured by certain of the Company's real estate assets. The majority of these loans, amounting to \$5,320 (2001 \$5,403), are for a term of ten years at a fixed rate of interest of 7.6% (2001 7.6%) and require monthly principal and interest payments amortized over 25 years.

The weighted average interest rate on long-term debt outstanding at the end of the year was 6.6% (2001 - 6.6%).

Repayments of long-term debt required within the next five years, including the \$7,731 convertible debenture described in note 10, are as follows:

2003	\$ 2,349
2004	4,350
2005	2,738
2006	10,545
2007	6,702
Thereafter	8,353
	\$ 35,037

9 Redeemable preferred shares of subsidiary

The redeemable preferred shares of a subsidiary company amounting to \$6,310 (2001 - \$6,371) comprise US\$4,000 redeemable shares, which bear a cumulative dividend of 8% on the redemption amount. These shares were assumed as part of the acquisition of the additional interest in Europort Inc. Poland Sp. z o.o., the company developing the Gdansk, Poland grain terminal project (note 13). The shares will be redeemed only from available cash flow from the project with US\$1,000 scheduled for redemption upon completion of the terminal's construction and US\$3,000 by July 2006.

10 Convertible debenture

Convertible secured subordinated debenture:

	2002	2001
Debt component	\$ 7,348	\$ 9,195
Equity component	\$ 836	\$ 1,075

A convertible subordinated debenture in the principal amount of \$9,940 was issued to the Company's principal shareholder and was taken out in connection with the acquisition of a subsidiary in 1999. The debenture bears interest at prime rate plus 1.0%, is convertible into common shares of the Company and matures on June 30, 2006. The conversion price for \$613 (2001 - \$2,822) of debenture principal, representing 170,344 (2001 - 783,887) common shares, is equal to \$3.60 per share. The remaining principal balance shall be eligible for conversion at such price, and at such times, as common shares are issued to employees pursuant to the exercise of stock options (other than pursuant to the exercise of stock options that were outstanding at December 31, 1999), subject to a minimum conversion price of \$3.00 per common share. The debenture creates a security interest, behind the security granted to the Company's bankers, which includes assignment of accounts receivable, holdbacks receivable and pledges of inventory, equipment and property and other assets of the Company. The Company is not entitled to prepay or repay any principal amount until the earlier of January 1, 2006 or demand by the lender for payment following the occurrence of an event of default. The lender has the right, at its option until June 30, 2006, to convert a portion of the principal amount into common shares of the Company. During the year ended December 31, 2002, the principal shareholder exercised its option to convert \$2,209 of convertible debentures into common shares. This resulted in a decrease in the debt component of convertible debenture by \$1,970 and a decrease in the equity component of convertible debenture by \$239. After conversion, the amount of the principal outstanding as at December 31, 2002 is \$7,731. An amount of \$836 (2001 - \$1,075) of the debenture principal has been included in shareholders' equity representing the value of the conversion option.

Interest expense on the debenture is composed of the interest calculated on the face value of the convertible debenture plus an annual notional interest representing the accretion of the carrying value of the debentures. Interest recorded was as follows:

	2002	2001
Interest expense on face value	\$ 433	\$ 697
Notional interest representing accretion	123	165
	\$ 556	\$ 862

The liability portion of the debenture is as follows:

	2002	2001
Financial liability component	\$ 6,895	\$ 8,865
Notional interest representing accretion	453	330
	\$ 7,348	\$ 9,195

11 Commitments and contingencies

(a) The Company has commitments for equipment and premises under operating leases, which require the following future minimum payments:

2003	\$ 18,824
2004	14,225
2005	9,397
2006	6,500
2007	4,467
Beyond	10,032
	\$ 63,445

In addition to commitments under the leases above, the Company has a proportionate share of the obligation of a joint venture constructing a grain terminal in Poland. The lease of land and a pier is for 25 years starting in 2002, with the Company's proportionate share of the minimum fixed payment being US\$867 per year and additional payments based on operating results of the terminal. Since the Company believes that payments under this lease do not come into effect until construction of the grain terminal is complete, the amount payable is in dispute and is subject to arbitration. The ultimate outcome of the dispute is not currently determinable (note 13).

- (b) The Company is involved in various claims and litigation both as plaintiff and defendant. In the opinion of management, the resolution of claims against the Company will not result in a material effect on the financial position of the Company. Any settlements or awards will be reflected in the consolidated statements of income, as the matters are resolved.
- (c) The Company is contingently liable for the usual contractor's obligations relating to performance and completion of construction contracts and for the obligations of its venturers in unincorporated joint ventures, the assets of which are available to settle any claims that may arise in the joint ventures.

- (d) The Company has outstanding guarantees and letters of credit amounting to \$54,831, of which \$50,498 is in support of financial and performance related obligations for the Nathpa Jhakri Hydroelectric Project in India, which has also been guaranteed by Hochtief AG, the parent of the Company's principal shareholder. In addition, in connection with the Cross Israel Highway project, letters of credit have been issued for which the Company has provided joint and several indemnification of \$59,500 net of funded deposits, in support of financial related obligations, including the requirement to invest in the project at the completion of construction (see note 7), as well as joint and several guarantees of \$74,100 in support of performance related obligations.
- (e) During 2001, the Company received federal income tax reassessments relating to deductions claimed by a previously acquired company, BFC Construction Corporation and its predecessor companies, between 1993 and 1999. The reassessments, which disallow previously claimed Canadian development expense deductions, amounted to \$10,720. The total expected reassessments, including income taxes, interest and penalties could be up to \$17,000. Although the Company has filed Notices of Objection, it is required to pay 50% of the assessed amounts pending resolution of the objections. At December 31, 2002, the Company paid 50% of the reassessments received. The Company believes it has adequate provisions to cover the ultimate outcome of these reassessments.

12 Capital stock

		2002		2001
	Number of shares issued	Amount	Number of shares issued	Amount
Balance - beginning of year	18,018,583	\$ 33,713	17,936,682	\$ 33,402
Common shares issued on the exercise of				
special warrants, less expenses of \$ 1,014	6,192,150	31,495	_	-
Common shares issued on exercise of options	286,833	919	97,401	340
Common shares issued on the conversion				
of convertible debenture	613,543	2,209	-	_
Common shares repurchased pursuant				
to normal course issuer bid	-	-	(15,500)	(29)
Balance - end of year	25,111,109	\$ 68,336	18,018,583	\$ 33,713

The Company is authorized to issue an unlimited number of common shares.

On May 6, 2002 the Company issued 6,192,150 special warrants ("Special Warrants") at a price of \$5.25 per Special Warrant for total proceeds of \$32,509. Each Special Warrant was exercisable, without additional consideration, for one common share of Aecon. On July 29, after filing a final prospectus with regulatory authorities qualifying the distribution of certain of the common shares, the Company issued 6,192,150 common shares. Net proceeds, after fees and expenses, amounted to \$31,495.

In 2001, the Company repurchased 15,500 of its common shares on the open market pursuant to the terms and conditions of a Normal Course Issuer Bid at a net cost of \$44. The amount in excess of the carrying value of the common shares was charged to retained earnings. All shares repurchased by the Company pursuant to its normal course issuer bid have been cancelled.

Pursuant to the loan agreement with the Company's bankers, the Company is restricted from paying dividends, except for an aggregate of \$4,000 per fiscal year provided that the financial covenants set out in the loan agreement have been satisfied.

Under the terms and conditions of the 1998 Stock Option Plan (the 1998 Plan), the aggregate number of common shares, which may be reserved for issuance under the 1998 Plan, shall not exceed 2,700,000 common shares. At December 31, 2002, the maximum number of shares reserved for issuance under the plan, after deducting options that have been exercised, is 2,310,766, of which 1,911,233 have been issued. Each option agreement shall specify the period for which the option thereunder is exercisable (which in no event shall exceed ten years from the date of grant), and shall provide that the option shall expire at the end of such period. The Company's Board of Directors will determine the vesting period on the dates of option grants.

		2002		2001
		Weighted		Weighted
		average		average
		exercise		exercise
	Shares	price	Shares	price
Balance outstanding at				
beginning of year	2,143,066	\$ 3.58	1,806,000	\$ 3.51
Granted	75,000	5.55	740,000	3.74
Exercised	(286,833)	3.21	(97,401)	3.48
Forfeited	(20,000)	4.10	(305,533)	3.56
Balance outstanding at end of year	1,911,233	\$ 3.71	2,143,066	\$ 3.58
Options exercisable at end of year	1,027,900	\$ 3.61	576,568	\$ 3.46

Options were exercised during the year for 286,833 shares (2001 - 97,401) for which share capital was increased by \$919 (2001 - \$340). Options currently outstanding have the following exercise prices and expiry dates:

Options granted in	Number of shares		Exercise price	Expiry date
1999	29,733	\$	2.90	April 15, 2004
2000	1,106,500	Φ	3.60	July 20, 2005
2001	200,000		3.60	March 5, 2006
2001	275,000		3.60	April 9, 2006
2001	225,000		4.00	May 7, 2006
2002	75,000		5.55	April 9, 2007

The options granted have a term of five years from the date of grant and vest on the anniversary date of the grant at the rate of one-third per annum of the total number of share options granted.

The Company has adopted fair value accounting for options granted after 2001 (note 2). For the 75,000 options issued to employees in 2002, compensation expense of \$68 was recognized and contributed surplus was increased by the same amount.

In connection with the issue of Special Warrants, referred to above, the Company issued to the underwriters 166,750 compensation options ("Compensation Options"). Each Compensation Option entitles the holder thereof to purchase one common share at an exercise price of \$5.25 per common share. The Compensation Options have an expiry date of May 6, 2004 and vest as follows: (i) one-third on November 6, 2002; (ii) one-third on May 6, 2003; and (iii) one-third on November 6, 2003. All of the Compensation Options were outstanding at December 31, 2002.

In addition to stock options, the Company has phantom share agreements with certain officers and to a firm in which a director of the Company is a partner whereby compensation, in the aggregate, shall be paid in each of 2002 and 2003 in an amount equal to the total of 165,000 shares multiplied by the average share price of the Company's shares for a specified period prior to payment. The Company paid an amount of \$754 in 2002, and an additional final amount of \$879 in February 2003, based on the same formula (note 2).

Details of the calculation of earnings per share are set out below. For purposes of calculating the weighted average number of shares outstanding (the denominator), the Special Warrants issued on May 6, 2002 have been treated as common share equivalents from their issue date.

			2002
	Income (numerator)	Shares (denominator)	Per share
Net income for the year	\$ 230	22,688,629	\$ 0.01
Effect of dilutive securities			
Options	_	596,648	_
Convertible secured subordinated debenture			
bearing interest at prime rate plus 1.0%,			
maturing on June 30, 2006 (i)	354	2,075,923	_
	\$ 584	25,361,200	\$ 0.01

			2001
	Income (numerator)	Shares (denominator)	Per share
Net income for the year	\$ 12,386	17,974,070	\$ 0.69
Effect of dilutive securities			
Options	-	347,746	_
Convertible secured subordinated debenture			
bearing interest at prime rate plus 1.0%,			
maturing on June 30, 2006	496	2,673,254	_
	\$ 12,882	20,995,070	\$ 0.61

⁽i) As the impact of the convertible secured subordinated debenture in 2002 would be anti-dilutive, it has been excluded from the calculation of diluted earnings per share.

13 Provision for loss on impairment of assets

The Company has a 54.4% interest in Europort Inc. Poland Sp. z o.o., which is the company developing a grain terminal and handling facility in Gdansk, Poland. Aecon's interest was increased in late 2000 from 11.3% to the current 54.4%, which is net of a 10% beneficial interest held by the Company's principal shareholder, Hochtief Canada Inc., by purchasing shares from another shareholder. The Company's subsidiary, SC Infrastructure (Poland) Sp. z o.o., is the contractor building the facility. The facility is partially completed and the Company's share of the cost to complete this project is estimated to be \$23,800.

Throughout 2001, the Company attempted but was not successful in obtaining project financing in order to complete the facility. The Company therefore determined that its share of the partially completed grain terminal was impaired and recorded in 2001 a provision of \$12,900 to write down the Company's investment in the project to its net recoverable amount. This provision is net of a guarantee of certain assets provided by the Company's principal shareholder, Hochtief Canada Inc., in the amount of \$7,500 and net of all non-recourse obligations. The non-recourse obligations represent redeemable preferred shares of a subsidiary, which are redeemable only if the project is completed and generates sufficient cash flow (note 9), and a working capital deficiency within SC Infrastructure (Poland) Sp. z o.o.

14 Interest

	2002	2001
Interest on long-term debt and		
subordinated debentures	\$ 1,348	\$ 2,271
Interest on capital leases	1,423	1,636
Interest on short-term debt	3,731	7,957
Interest income	(3,576)	(6,286)
	\$ 2,926	\$ 5,578

15 Cash flow information

Change in other balances relating to operations:

	2002	2001
(Increase) decrease in		
Marketable securities	\$ (2,860)	\$ (2,475)
Accounts receivable	28,824	(7,583)
Holdbacks receivable	544	(6,053)
Deferred contract costs and unbilled revenue	14,605	268
Inventories	(2,708)	(3,834)
Income taxes recoverable	_	2,257
Prepaid expenses	(1,353)	2,863
Assets held for resale	_	2,410
Increase (decrease) in		
Accounts payable and accrued liabilities	(40,461)	43,006
Holdbacks payable	(129)	196
Deferred revenue	(32,432)	9,381
Income taxes payable	(977)	785
Employee benefit plans	(1,158)	(284)
	\$ (38,105)	\$ 40,937

Other supplementary information:

	2002	2001
Cash interest paid \$	6,641	\$ 10,205
Cash income taxes paid	7,489	7,571

Property, plant and equipment acquired and financed by means of capital leases was \$948 for the year ended December 31, 2002 (2001 - \$1,488).

16 Acquisition

In the second quarter of 2002, the Company's 38.75% owned joint venture, Canatom NPM Inc. ("Canatom"), acquired all of the issued and outstanding shares of CNUS (Canadian Nuclear Utility Services), for a total consideration of \$1,250, of which the Company's proportionate share is \$484. Canatom has accounted for the acquisition using the purchase method and the results of operations of the acquired business are included from the acquisition date.

The Company's share of net assets acquired are summarized as follows:

	2002
Property, plant and equipment	\$ 5
Intangible assets	79
Goodwill	400
Total cash consideration	\$ 484

Canatom determined in late 2002 that goodwill acquired on the acquisition of CNUS was impaired, and as a result, \$434 was written off as a charge to earnings in the last quarter of 2002. Aecon's share of the impairment charge amounted to \$168.

17 Employee benefit plans

The Company has defined benefit pension plans including a supplementary executive retirement plan and defined contribution plans covering substantially all employees, other than union employees who are covered by multi-employer pension plans administered by the unions. Benefits under the defined benefit plans are generally based on the employee's years of service and level of compensation. Pension expense with respect to the Company's plans is shown below.

Pension expense:

	2002	2001
Defined contribution plans	\$ 1,226	\$ 873
Defined benefit plans, including supplementary		
executive retirement plan	2,164	1,472
Multi-employer pension plan contributions	10,977	13,597
	\$ 14,367	\$ 15,942

Additional information with respect to the defined benefit plans follows:

	2002	2001
Accrued benefit obligation		
Balance - beginning of year \$	26,359	\$ 23,322
Current service cost	1,165	1,115
Interest cost	1,888	1,679
Actuarial losses	1,800	1,344
Benefits paid	(1,435)	(1,101)
Balance - end of year (a)	29,777	26,359
Plan assets		
Fair value - beginning of year	20,828	20,961
Actual return on plan assets	(719)	965
Benefits paid	(1,435)	(1,101)
Employer contributions	3,323	363
Contributions to defined contribution plan	_	(360)
Fair value - end of year (b)	21,997	20,828
Funded status - plan deficit	(7,780)	(5,531)
Less		
Unrecognized transitional liability	262	789
Unrecognized actuarial losses	5,754	1,820
Accrued liability recorded in consolidated financial statements \$	(1,764)	\$ (2,922)

- (a) Included in the accrued benefit obligation is an unfunded defined benefit pension plan obligation of \$2,613 (2001 \$2,484).
- (b) Pension fund assets are held in equity, fixed income and money market securities.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2002	2001
Discount rate	7.0%	7.0%
Expected long-term rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	4.5%	4.5%

Components of defined benefit pension expense are:

	2002	2001
Current service cost	\$ 1,165	\$ 1,115
Interest	1,888	1,679
Expected return on plan assets	(1,488)	(1,441)
Amortization of transitional obligation	527	119
Amortization of actuarial losses	72	-
	\$ 2,164	\$ 1,472

18 Related party transactions

In addition to related party transactions described elsewhere in the notes to these consolidated financial statements, the following summarizes additional transactions during the year:

- (a) The Company paid guarantee fees in the amount of \$387 (2001 \$394) to Hochtief AG, the parent of the Company's principal shareholder in relation to the guarantees it has issued for the Nathpa Jhakri Hydro-electric Project in India (note 11). In addition, a guarantee of \$7,500 provided by the Company's principal shareholder, Hochtief Canada Inc., in relation to the Gdansk project was settled during the year (note 13).
- (b) The Company paid legal fees (which includes compensation under a phantom share agreement, as discussed in note 12) in the amount of \$566 (2001 \$464) to a firm in which a Director of the Company is a partner.
- (c) The Company paid professional fees in the amount of \$43 (2001 \$102) to a consulting company in which a Director of the Company is a partner.
- (d) An officer of a subsidiary company is a shareholder of Capital Projects Group Inc. from which the Company has a loan receivable of \$4,472 (2001 \$4,249) (note 7).

19 Financial instruments

Short-term deposits and cash equivalents, marketable securities, accounts receivable, and accounts payable and accrued liabilities approximate their fair values on a discounted cash flow basis because of the near-term nature of these instruments.

The carrying value of long-term debts, including convertible debt, approximate their fair value on a discounted cash flow basis because the majority of these obligations bear interest at rates that vary with the prime rate.

The redeemable preferred shares of a subsidiary are not traded and no quoted market value exists, and accordingly, their estimated fair value is not determinable.

Other financial instruments held or issued by the Company include holdbacks receivable, non-interest bearing project advances payable or holdbacks payable, which are amounts directly related to construction contracts. These amounts, by their nature, do not bear interest and consideration for the time value of money is thus negotiated into the price of the contracts. The Company does not have plans to sell these financial instruments to third parties and will realize or settle them in the normal course of business. No quoted market price exists for these instruments because they are not traded in an active and liquid market. Accordingly, the fair values of holdbacks receivable, non-interest bearing project advances payable or holdbacks payable are considered to approximate the carrying values.

From time to time, the Company enters into forward contracts to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. At December 31, 2002, the Company had outstanding contracts to sell US\$3,857 (2001- 2,785 pounds sterling) on which there was an unrealized exchange loss of \$20 (2001 - loss of \$395), which represents the estimated amount that the Company would have had to pay if it terminated the contracts at the end of the respective years.

20 Segmented information and business concentration

The Company has three reportable segments: Infrastructure, Buildings and Industrial. This segmentation reflects the Company's current structure and management. The accounting policies used by the segments are the same as those described in the summary of accounting policies. The Corporate and Other category in the summary below includes corporate costs and other activities not directly allocable to segments and also includes inter-segment eliminations.

Infrastructure

This segment includes all aspects of the construction of infrastructure including roads and highways, expressways and toll routes, dams and tunnels, bridges, airports, marine facilities, transit systems and power projects as well as utility distribution systems including natural gas, telecommunications and electrical networks, water and sewer mains, traffic signals and highway lighting. Activities within this segment also include the development, design, construction, operation and financing of infrastructure projects by way of build-operate-transfer, build-own-operate-transfer or public-private partnership contract structures.

Buildings

This segment is active in the construction of commercial and institutional buildings principally in Canada and the northwestern United States and selected international projects.

Industrial

This segment includes all of the Company's industrial manufacturing and industrial construction activities. These operations include the fabrication of small and large bore pipe and module assembly for the petrochemical industry, and the design and manufacture of once-through heat recovery steam generators for industrial and power plant applications. Also included are the Company's industrial construction, installation and maintenance activities where the Company has special expertise in the power, automotive and steel industries. This segment also includes the Company's interest in Canatom NPM Inc., which provides engineering and construction services to nuclear power markets, that was previously included in Corporate and Other. Prior year figures have been reclassified to reflect this change.

(a) Industry segments

					2002
	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	\$ 536,087	\$ 332,900	\$ 208,407	\$ (4,430)	\$ 1,072,964
EBITDA	\$ 12,639	\$ 5,751	\$ 4,901	\$ (9,618)	\$ 13,673
Depreciation and amortization	6,989	139	1,891	805	9,824
Segment operating profit (loss)	\$ 5,650	\$ 5,612	\$ 3,010	\$ (10,423)	\$ 3,849
Interest and income taxes					\$ (3,619)
Net income					\$ 230
Total assets	\$ 316,380	\$ 65,261	\$ 82,696	\$ 51,383	\$ 515,720
Capital expenditures	\$ 2,153	\$ 195	\$ 1,461	\$ 1,046	\$ 4,855
Cash flow from operations	\$ 11,258	\$ 5,839	\$ 3,823	\$ (19,466)	\$ 1,454

					2001
	Infrastructure	Buildings	Industrial	Corporate and Other	Total
Revenues	\$ 573,321	\$ 278,080	\$ 291,860	\$ (4,397)	\$ 1,138,864
EBITDA	\$ 23,156	\$ 6,013	\$ 27,048	\$ (15,810)	\$ 40,407
Depreciation and					
amortization	7,346	168	1,801	1,193	10,508
Segment operating					
profit (loss)	\$ 15,810	\$ 5,845	\$ 25,247	\$ (17,003)	\$ 29,899
Interest and income taxes					\$ (17,513)
Net income					\$ 12,386
Total assets	\$ 334,651	\$ 79,039	\$ 109,576	\$ 65,987	\$ 589,253
Capital expenditures	\$ 6,402	\$ 118	\$ 5,574	\$ 2,579	\$ 14,673
Cash flow from operations	\$ 35,259	\$ 5,574	\$ 26,324	\$ (29,004)	\$ 38,153

EBITDA represents earnings before interest, income taxes, depreciation and amortization. Segment operating profit (loss) represents net income before interest and income taxes. Cash flow from operations is before the change in other balances related to operations.

(b) Geographic segments

	2002	2001
Revenues		
Canada	\$ 790,836	\$ 827,348
United States	70,242	147,690
Other	211,886	163,826
	\$ 1,072,964	\$ 1,138,864
Property, plant and equipment and goodwill		
Canada	\$ 77,600	\$ 90,000
United States	329	340
Poland	11,496	11,496
	\$ 89,425	\$ 101,836

21 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2002 AECON AWARD RECIPIENTS

The Extraordinary Achievement Award

This annual award recognizes Aecon employees who exhibit extraordinary commitment to the achievement of our vision, values and business objectives and who are instrumental in helping Aecon to exceed expectations.

Winner:

Curt Washer,

President, Eastern Region, Aecon Buildings

Honourable Mention:

Bill Clarke,

Director, Business Development, Aecon Civil and Utilities

Honourable Mention:

Don Manley, Project Manager, Aecon Industrial

The Individual Excellence In Safety Award

This annual award recognizes an individual employee's commitment to construction safety. The achievements of the winners have contributed to the safety of colleagues and clearly demonstrate the Aecon core value to ensure safety in all our activities.

Winner:

Kevin Kiewsetter, On Site Service and Maintenance Project Manager, Toyota Motor Manufacturing Canada, Aecon Industrial

Honourable Mention:

Dave Westlake, Shop Superintendent, Oakville Facility, Aecon Industrial

Honourable Mention:

Mike Drexler, Project Superintendent, Hudson's Bay Centre, Aecon Buildings

The Humanitarian Award

This annual award recognizes the outstanding contribution of Aecon employees to the communities in which we live and operate. Winners of this award clearly demonstrate through their actions their commitment to both the core business of Aecon and our mission to develop, build and maintain world class quality infrastructure that supports and improves the communities in which we live and work.

Winner:

Cindy Woolliscroft, Transaction Centre Administrator, Aecon Shared Services

Honourable Mention:

Anabela Rebelo, Manager, Financial Services, Aecon Shared Services

Honourable Mention:

The Rose Cherry Home Fund Raising Committee of Aecon Buildings comprised of Jenn Burchat, Cathy Caranci, Trish Hambly, Mary Ann Jablonski, Erica Johnson, Ken Lester, Cecilia Li and Debbie Woods

CORPORATE INFORMATION

Board of Directors

John M. Beck Chairman and Chief Executive Officer, Aecon Group Inc.

Scott C. Balfour Executive Vice President and Chief Financial Officer, Aecon Group Inc.

Michael A. Butt President, Buttcon Limited

Rolf Kindbom
Officer and Director, Hochtief Canada Inc.
Hans-Wolfgang Koch
Thomas C. Leppert
Chairman and CEO, The Turner Corporation
Dr. Busso Peus
President and Director, Hochtief Canada Inc.

Robert P. Wildeboer Partner, Wildeboer Rand Thompson Apps & Dellelce, LLP

Executive Committee

John M. Beck Chairman and Chief Executive Officer

Scott C. Balfour Executive Vice President and Chief Financial Officer

Norm A. Harrison Executive Vice President
H. William (Bill) Pearson Executive Vice President
Jonathan J. Taylor Executive Vice President

Corporate Management Team

Andy DeHaan Vice President, Management Information Systems

Gerry KellyVice President, FinanceBernard L. KruyneVice President and TreasurerKen McGillionVice President, Risk ManagementMitch PattenVice President, Corporate Affairs

L. Brian Swartz Vice President, Legal Services and Secretary

Division Presidents

R.D. (Bob) Dautovich President, Innovative Steam Technologies **Paul P. Koenderman** Chief Executive Officer, Aecon Industrial Group

Sherman Ladner President, Aecon Industrial

Lon MullinPresident, Aecon Civil and UtilitiesPierre PatryPresident, Groupe Aecon LtéeJ. David PiriePresident, Aecon InfrastructureJonathan J. TaylorPresident, Aecon Buildings

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3660 Midland Avenue Toronto, Ontario M1V 4V3

Phone: (416) 293-8020

Canatom NPM Inc. (38.75%)

2655, North Sheridan Way Suite 180 Mississauga, Ontario L5K 2P8

Derech Eretz Consortium

Phone: (905) 829-8808

(22.2%)

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Phone: 972 3 915 1300

Nathpa Jhakri Joint Venture (45%)

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